S. HRG. 99-845

UNITED STATES-CANADIAN TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

SECOND SESSION

MARCH 12, 1986

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

62-651 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

J841-1

JOINT ECONOMIC COMMITTEE

[Created pursuant to sec. 5(a) of Public Law 304, 79th Congress]

HOUSE OF REPRESENTATIVES

DAVID R. OBEY, Wisconsin, *Chairman*
LEE H. HAMILTON, Indiana
PARREN J. MITCHELL, Maryland
AUGUSTUS F. HAWKINS, California
JAMES H. SCHEUER, New York
FORTNEY H. (PETE) STARK, California
CHALMERS P. WYLIE, Ohio
DANIEL E. LUNGREN, California
OLYMPIA J. SNOWE, Maine
BOBBI FIEDLER, California

SENATE

JAMES ABDNOR, South Dakota,
Vice Chairman
WILLIAM V. ROTH, JR., Delaware
STEVEN D. SYMMS, Idaho
MACK MATTINGLY, Georgia
ALFONSE M. D'AMATO, New York
PETE WILSON, California
LLOYD BENTSEN, Texas
WILLIAM PROXMIRE, Wisconsin
EDWARD M. KENNEDY, Massachusetts
PAUL S. SARBANES, Maryland

SCOTT LILLY, *Executive Director*
ROBERT J. TOSTERUD, *Deputy Director*

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

SENATE

STEVEN D. SYMMS, Idaho, *Chairman*
ALFONSE M. D'AMATO, New York
EDWARD M. KENNEDY, Massachusetts
PAUL S. SARBANES, Maryland

HOUSE OF REPRESENTATIVES

CHALMERS P. WYLIE, Ohio,
Vice Chairman
BOBBI FIEDLER, California
LEE H. HAMILTON, Indiana
DAVID R. OBEY, Wisconsin

CONTENTS

WITNESSES AND STATEMENTS

WEDNESDAY, MARCH 12, 1986

	Page
Symms, Hon. Steven D., chairman of the Subcommittee on Monetary and Fiscal Policy: Opening statement	1
D'Amato, Hon. Alfonse M., member of the Subcommittee on Monetary and Fiscal Policy: Opening statement	36
Craig, Hon. Larry E., a U.S. Representative in Congress from the First Congressional District of the State of Idaho	3
Eckes, Hon. Alfred, Commissioner, U.S. International Trade Commission	8
Richards, W.T., president, Idaho Forest Industries	29
Stahl, Lloyd E., executive director, Black Hills Forest Resource Association	37
Nichols, Carlton E., Jr., president, American Furniture Manufacturers Association	44

SUBMISSIONS FOR THE RECORD

WEDNESDAY, MARCH 12, 1986

Eckes, Hon. Alfred: Prepared statement	11
Nickols, Carlton E., Jr.:	
Prepared statement	49
Report entitled "Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry"	59

APPENDIX

Idaho Women in Timber: Statement on Canadian imports	159

UNITED STATES-CANADIAN TRADE

WEDNESDAY, MARCH 12, 1986

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON MONETARY AND FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Steven D. Symms (chairman of the subcommittee) presiding.

Present: Senators Symms, D'Amato, and Abdnor.

Also present: Joe Cobb, professional staff member.

OPENING STATEMENT OF SENATOR SYMMS, CHAIRMAN

Senator SYMMS. Good morning. We are glad to call the subcommittee to order this morning and welcome our witnesses. I want to make a brief opening statement, and then we will proceed immediately to our list of witnesses who are here with us this morning.

The United States and Canada conduct the world's largest bilateral trade relationship, and that is the purpose of this hearing, to examine some of the problems that have arisen over that trade. We welcome the trade, but we would like to make certain that the trade that takes place between Canada and the United States is fair to producers and consumers on both sides of the border.

Our exports to Canada were $45 billion last year, and the total business was $114 billion. Our exports to Canada were $45 billion and our imports were $69 billion. This comes out to a $24 billion deficit. Only with Japan do we have a larger trade deficit. On a per capita basis, this is one of the world's largest trade deficits. With the Canadians we share one of the world's longest and most open borders, and I think we all hope we can keep it that way. For these reasons, I thought it important that we convene a hearing to consider some of the troubling aspects of our trade relationship with Canada.

Now I want to make it clear that we are not interested in trying to erect long-term trade barriers between two good neighbors. I have been a staunch advocate of a general philosophy of what is commonly called free trade ever since I first came to the House of Representatives in 1972, but I have always had the caveat that free trade cannot exist without it being fair trade, and I think that we have a problem that we should examine and explore and look for ways to resolve that question with respect to trade with Canada.

Maybe we need a better term to describe what our trade policy should be, and maybe we should call it equity trade, instead of free

trade, and that is the best description that I have been able to coin so far, but it does make the point.

Although I am not, as I said, interested in erecting trade barriers, we do have some trade inequities that we cannot tolerate any longer. In fact, in my view, we have tolerated it far too long. We should have made some action in a more firm fashion as soon as a year ago in my view.

The most serious issue threatening our trade relationships is the damage the Canadian lumber is doing to our domestic softwood industry. The statistics show that Canada currently has 33 percent of the United States market, but that doesn't tell the story.

The real story is people, people who have seen their hopes and dreams turned to ashes on the heels of Canadian policies that buy Canadian jobs at the expense of American jobs. Now those are harsh words, but I am convinced that they are accurate. One of the purposes of this hearing is to consider the lumber industry issue in detail. We will have two witnesses who are very knowledgeable about the softwood industry in the United States, and I am looking forward to hearing from them and will have some questions to ask.

I am going to make a statement on the lumber import issue. I would like Mr. Richards and Mr. Stahl to comment on this during their testimony. Now I have read statements that any restriction on imported lumber would have a negative impact on the home-building industry. However, the average new home consumes about 10,000 board feet of lumber. Industry associations tell me that the average cost of lumber imported from Canada is about $150 per thousand board feet. Therefore, the type of lumber that might be imported would cost about $1,500 or less than 2 percent of the $102,000 cost of the average new single family home.

Now my question, which will be directed to our timber witnesses is, How much of a price increase is required to allow our domestic industry to operate at a normal rate and have a fair market price?

Now I am looking forward also to the testimony of Mr. Alfred Eckes, the Commissioner of the International Trade Commission. I especially want to discuss with Mr. Eckes the finding that the Canadian stumpage price is about 10 percent of the price that United States producers must pay the United States Forest Service. And I would like to know how that does not constitute a subsidy and, if it is not a subsidy, I would be interested in what it is called and how it is explained.

Our fourth witness, Mr. Carlton Nichols, of Nichols and Stone, a furniture manufacturing company located in Massachusetts is prepared to discuss another aspect of United States-Canadian lumber trade. It is my understanding that Mr. Nichols' company has great difficulty in penetrating the Canadian furniture market. I would like to know if this difficulty is caused by trade practices, and I wonder if he is struck by the contrast between his difficulties and the ease in which Canadian lumber penetrates the United States market?

Lumber is not our only concern with the Canadians, I might add. Between 1984 and 1985 pork imports from Canada increased 16 percent, from 326 million pounds to 388 million pounds. Beef imports increased 10 percent, from 189 million pounds to 211 million pounds. Now please keep in mind that these are carcass weights.

To get the full picture, it is necessary to include live animals. In 1984, 362,000 cattle came in from Canada. In 1985 the total was down slightly to 358,000, but the feeder category grew by about 90,000 animals. Similarly, live pork imports also decreased slightly from 1,300 in 1984 to 1,200 in 1985. A breakdown is not available between feeder and slaughter animals for pork. In any case, I think it is obvious that we need to look at this issue very carefully. I hear many, many complaints about loads of Canadian cattle and hogs going to slaughterhouses in Idaho, Montana, and also to a large slaughterhouse in Utah where there are numerous trucks lined up unloading daily from Canada with livestock on the hoof that is not, as I said, counted in the other numbers.

Now Idaho also is noted for quality potatoes, but we are having difficulties with the Canadians here also. I am sure other potato-producing States have the same experience. Idaho growers tell me that they have identified 32 separate subsidies on the Canadian potato. Just recently a decision was made to pay Prince Rupert Island potato growers a $3 per hundredweight subsidy. We are also worried about the imposition of the Special Import Measures Act which seems to me to be an illegal imposition of the antidumping provisions. Most American growers consider trade in potatoes between the two countries a one-way street.

In spite of the negative points I have brought up, I think that we generally have had historically over the years a good trade relationship with the Canadians, and it would be most unfortunate if our two administrations are not able to sit down and resolve this because, in my view, this good trade relationship cannot continue with some of these facts that are now taking place.

In my view, if we can't get them corrected, the only resource would be some very strong, bold legislative initiative. They are on the table. The bills have been introduced to get action by the Congress and acceptance by the administration to impose a more rigid restriction.

So I hope this hearing will give us an opportunity to iron out some of the difficulties in the trade relationship and help make the point that may need to be made to justify further action on the part of the Senate Finance Committee which I am also a member of.

So at this point our first witness will be Congressman Larry Craig from the First District of Idaho.

Larry, would you like to come up, please, and make your statement.

I would say also, Congressman Craig, that you are certainly invited after you have made your statement to join me up here at the dais and ask any questions that you might wish of further witnesses. Please go right ahead. Welcome to the subcommittee.

STATEMENT OF HON. LARRY E. CRAIG, A U.S. REPRESENTATIVE IN CONGRESS FROM THE FIRST CONGRESSIONAL DISTRICT OF THE STATE OF IDAHO

Representative CRAIG. Thank you very much, Mr. Chairman.

Senator SYMMS. I might also say to the audience that I am most happy to have Congressman Craig as my Congressman and very

proud of the job that he does in the Congress of the United States on behalf of my State and our constituents in Idaho.

Representative CRAIG. Well thank you very much, Mr. Chairman, for those kind words.

Let me tell you, Mr. Chairman, that you are holding an extremely important hearing during what I think is a most critical time in our relationship with Canada.

While we sit here and talk today, the Canadian negotiators are in Washington, here in this city discussing the timber industry with our negotiators. This is the third such meeting, and no one really knows, if anything, what is going to happen in the coming days.

While the administration is scheduling talks about the establishment of a free trade zone with Canada, we need to recognize the current problems that exist between us and our Canadian neighbors. I think your outline of some of those problems this morning is accurate and most timely, Mr. Chairman, as it relates to the current discussions that are underway.

There is an old economic principle that you in your first campaign espoused and that you and I and others agree with. It is called TANSTAAFL, or there ain't no such thing as a free lunch.

If the Canadians want to enjoy the free trade zone that their Government now espouses and our President and this administration is willing to listen to, then I think we have to start from an equal basis in that zone relationship and in our trade relationship.

The Canadian must be willing to recognize the problems that exist and be willing to take steps to correct those problems that now currently exist and give us great problems between our two nations and between our States and their Provinces.

Now you have talked about some of those problems from live cattle, pork, potatoes, furniture, and pharmaceuticals. Some of those are being worked out in limited ways at this time. But the one among those that remains clearly a major problem to the Pacific Northwest, to the Northeast, to the Southeast, and to the softwood timber producing areas of this Nation, is the question of timber.

The U.S. lumber market is booming, but the U.S. lumber industry, one of the most efficient in the world is on its face. Tens of thousands of lumber workers are out of work, hundreds of mills are closed, the cause of these problems is depressed lumber prices caused in large part from a hemispherical problem of massive overproduction.

As you know, Steve, our Potlatch Corp. in Idaho, which has already been forced to close three mills in our State, announced the closure of a fourth in 1985, and that mill employed 200 workers.

Well, if you talk about 200 workers in New York or Illinois, that doesn't seem significant in the overall work force. But when you talk about the loss of 200 jobs in a State like Idaho of less than 1 million people, you are talking about big problems, major economic problems for our State.

North America is one great forest. Together the United States and Canada have nearly 1 billion acres of productive forest lands capable of growing repeated crops of trees. Canada has a productive forest acreage of about 490 million acres compared with 483

million acres in the United States. But the United States has an advantage in productivity.

Both countries have large industries based on forests. Historically relations between our countries, Mr. Chairman, as you have mentioned, have been of competitiveness, but competitiveness in a harmonious environment. There are many similarities between us and them. Paper, solid wood products, the chemical byproducts, are all an important segment of our two nation's economies.

Many United States companies own timber and operate plants in Canada and some Canadian companies have woodlands and production facilities here in the United States. Production efficiency and transportation costs in large part are similar, but we could single out some variances and differences.

After studying the International Trade Commission and the studies that it has been involved in over the last year, studies that I have watched very closely, and hearings that I have testified before, I think on balance we have to say that some of those things, or at least some of those differences are at a draw.

The lumber segment of the U.S. industry basically exists to serve the U.S. market. Only a relatively small volume of our production is exported.

By contrast, Canadian markets absorb a very small fraction of their nation's lumber production. The remainder of that production is exported, with a large percentage of that production coming here to this country.

Canadian Governments essentially set stumpage prices so low that Canadian lumber can be sold in the United States at whatever prices are needed to be competitive, regardless of how close American mills are to their own Canadian local markets. For example, stumpage prices in British Columbia's interior, the largest exporting area to the United States, are below the United States market in the south by as much as $117 per thousand board feet.

Lumber mills in Idaho harvest from exactly the same types of forests as our Canadian manufacturers just across the border. The Canadians pay an average of $46 less per thousand board feet, a difference of about 85 percent in that region.

Local cross-border comparisons between Washington and Oregon and British Columbia on the coast show an $87 advantage to the Canadian buyer, a difference of 80 percent in those timber costs.

Canadian officials have attempted to justify lower timber prices partly on the grounds that United States logging roads are better and harvesting conditions are less costly below the border. But these differences, if any, have been eliminated by the specific border, cross-border comparisons in large part.

In our country one-third of the timber production comes from Government land, one-third comes from private company owned land, and one-third comes from private small ownership land. Where the assessed value of timber is based on bidding at competitive auctions, the differences in biddings are far too great, existing because of Canadian Government subsidies that United States producers do not enjoy, putting their production and their producers at a tremendous advantage. This is disrupting our market and our forest products industry; frankly, Mr. Chairman, it just ain't fair.

As prices have gone lower and lower, Canadian exports to the United States have become greater and greater. We have watched it over the last several years and watched the graph get even larger. Another way of looking at the situation is that as more and more Canadian lumber is imported to this country, prices shrink lower and lower. Between 1977 and 1984 the U.S. International Trade Commission reported a net loss of 629 U.S. softwood mills and planing plants, an 18 percent drop in those plants. By contrast during the same period, Canadian sawmills increased in total number by 85, which represents about a 9 percent increase.

The U.S. industry became more efficient with this shrunken number of mills, managing to produce 20 percent more lumber in 1985 than was manufactured in 1975. Canada, however, doubled its production by 103 percent in the same period and captured nearly all of the growth provided by our United States markets' recovery in the last 2 years.

United States lumber producers are not trying to drive their Canadian competitors from the United States marketplace. What U.S. lumber producers are seeking is an equal competitive position in order to retain a fair market share at prices that result in adequate return on investment.

That, Mr. Chairman, is not protectionism. It is fairness with a strong conservation benefit attached. We have no choice but to pursue every remedy available, including provisions under existing law and new legislation to put Canadian timber on an equal economic footing with the United States if Canadian lumber is to be imported into our country.

I believe, therefore, Mr. Chairman, we must urge a firm stand in the U.S. trade negotiations with Canada on lumber and wood products to correct these inequities and the unfairness involved in the Canadian lumber imports to this country. At stake, near term, is the survival of the United States lumber industry; while long term, Mr. Chairman, the strategic issue is U.S. wood fiber sufficiency. Those are the bottom lines as I view them.

Mr. Chairman, I have been involved in this issue since the first hearing I attended and participated in December 1984. The issue has not improved even as economic conditions in large part have improved and housing starts are edging toward the record they established in the late 1970's and early 1980's.

As those housing starts go up, our industry seems to sink lower and lower simply because they are at this phenomenally noncompetitive situation in the marketplace with our Canadian friends.

If we do not recognize it and build an element of fairness into our relationship, then I think, as I mentioned earlier, the short-term issue is going to be in large part the survival of our own industry and the long-term issue is the sufficiency, the conservation, and the benefit of having a viable forest products industy in this hemisphere.

Thank you very much for allowing me to testify before your hearing.

Senator SYMMS. Thank you very much for an excellent statement, and I think you framed the issue quite well, Larry. I think it was an excellent statement. It frames the issue, but I want to ask

one or two questions. We have witnesses that have come a long way. So I won't hold you up very much.

I would like to ask, what is the progress of the Gibbons bill in the House, which is the natural resource subsidy bill, which would invoke a countervailing duty of what $46 a thousand?

Representative CRAIG. Approximately.

Senator SYMMS. Approximately on Canadian stumpage. What is the progress of that now?

Representative CRAIG. Well, Steve, as you know, over the last year I have worked on a variety of attempts at legislation over in the House. Working with Chairman Sam Gibbons of the Trade Subcommittee of House Ways and Means, we were able to craft that bill, to hold hearings and to get it out of the subcommittee. It is now in the full committee, and resides there at least for the short time.

I say that because, as you know, last year much of the effort here in the Congress as related to our trade problems tended to be commodity specific. I think we have found in large part that that might well be an unwise approach and that we really had a massive trade problem in which we should deal with on a broader base in the formulation of new trade policy.

Recognizing that I think both here in the Senate and clearly in the House, the chairman of our House Ways and Means Committee has pledged to produce trade legislation in which the export subsidy approach will be a major component of that legislative package.

Now they have targeted late May for that issue to be to the floor. As you know, the House Ways and Means Committee is retreating this weekend with our Trade Ambassador, Clayton Yeutter. Sam Gibbons has told me that that bill, our bill, will be a major point of discussion in the overall packaging of the individual pieces of trade legislation into a total trade package that will come before the House hopefully in late May. It is very much alive and well.

Of course our Canadian friends are extremely concerned about it. As Chairman Gibbons and I mentioned to them last August when we were in Vancouver, if you are not subsidizing this industry, then you have nothing to fear from this legislation. We kept repeating that, and yet they have spent millions of dollars lobbying to kill that bill here in Washington.

So apparently they have something to fear. If it is fear they are dealing with, then I think it goes hand in hand with the subsidy they deny they are offering their producer. They are playing their own hand and showing their own hand at this moment by their activities here in Washington.

We will pass that legislation out of the House, and I think you will have it here in some form and, as I know, you have been active in that approach here on the Senate side.

Senator SYMMS. There is a lot of support for that bill in the Senate Finance Committee. Senator Baucus, myself, and others have held a hearing on it, on the concept of it and the idea of it to establish the fact that there is a subsidy on Canadian stumpage and it would apply to that.

It appears to me that there is a lot of support for that bill in the Senate Finance Committee, and I think before a free trade zone can be resolved with the Canadians and anything could be passed

through the Senate Finance Committee, certainly at least on the timber question, not to mention the other commodities that I brought up, that those things have to be resolved or there will not be acceptance, in my judgment, in the Senate Finance Committee of a free trade zone with Canada, which the Canadians say that they would like to have.

So if they want it, they are going to have to cooperate on these natural resource commodities that we believe are being subsidized.

Well, I thank you very much for an excellent statement and I won't hold you any longer. We can correspond if we need to for any further questions for our record.

I want to compliment you for your tireless effort on behalf of the jobs that are at stake and the people who earn their livelihood in our State in the forest products industry, and I thank you again for that.

Representative CRAIG. Thank you, Mr. Chairman.

Senator SYMMS. You are welcome to join me here at the dias if you have time. Our next witness is Mr. Alfred Eckes, Commissioner of the International Trade Commission. Mr. Eckes, please go right ahead.

STATEMENT OF HON. ALFRED ECKES, COMMISSIONER, U.S. INTERNATIONAL TRADE COMMISSION

Mr. ECKES. Thank you very much, Mr. Chairman. I am pleased to have this opportunity to offer one Commissioner's perspective on trade with our neighbor and major trading partner, Canada. As you know, I have submitted a rather lengthy prepared statement, and I will take this opportunity just to summarize some of the key points.

As you are aware, the International Trade Commission is not charged with making trade policy. Rather, as a respository of trade information and technical expertise, we assist Congress and the Executive to make law and policy.

And, second, as a quasi-judicial body, the Commission rules on petitions from domestic industries claiming injury. Thus, in my job, I have the opportunity to view United States-Canadian trade patterns at the macro level and also at the micro level, looking at the problems of fishermen, of steelmakers, of potato farmers, of hog growers, and of lumber mill operators who bring their problems to us.

As you know, trade relations with Japan have occupied, and quite properly, center stage for such a long time that many of us tend to forget that our neighbor to the north is our principal trading partner, a point you brought out in your opening statement. Two-way trade between the United States and Canada totaled nearly $114 billion last year, almost 27 percent more in value than trade with Japan. This two-way trade has grown very rapidly in the 1980's, increasing about 36 percent since 1981.

Unfortunately, the 1980's also produced a rapid change in the balance of trade with Canada. A merchandise trade surplus of $7.6 billion in 1981 for us deteriorated to a deficit of about $24 billion in 1985, and that is almost 18 percent of our total U.S. trade deficit. Although U.S. exports increased 18 percent, imports from Canada

increased 50 percent in that period. Motor vehicles and parts are the major export and import items in our two-way trade with Canada, and other major imports to the United States include newsprint, crude petroleum, natural gas, and, of course, softwood lumber.

Our exports to Canada last year included office machinery, computers, telecommunications equipment, coal, and other items. There is no question that trade with Canada is important to our economy. The United States exports twice as much to Canada as it does to Japan.

Indeed, the Province of Ontario receives more United States exports than does all of Japan combined. But the pattern of trade with Canada is somewhat different from our trade with Japan.

In dealing with Japan we find that roughly three-quarters of our exports are agricultural products, and about a third of our exports to the European community are agricultural or other unfinished goods. But most of our exports to Canada are manufactured and semifinished goods, and these, of course, translate into jobs for American manufacturing workers.

Our two-way trade is considerably more important to Canada. Almost 72 percent of the imports to Canada come from the United States and 75 percent of Canada's exports come to this country. With a relatively small population, only about 11 percent of the United States level, it is apparent that Canada needs the large and prosperous market south of its border to fuel its own economic growth.

Now let me say a few words about the trade prospects and some of the problems which you have already identified.

First, the prospects. For more than a century individuals on both sides of our common border have talked about the advantages of a free trade arrangement between the two countries. This time the initiative has come from the Canadian side.

As you know, President Reagan has submitted a request to Congress to enter into negotiations and, if Congress does not disapprove the request by early May, the administration will proceed. If we proceed with those negotiations, the International Trade Commission will have a rather large statutory responsibility to assess the probable effects on U.S. industries of the proposed tariff eliminations.

Obviously the success of such negotiations is dependent upon addressing the concerns of both countries. Over the last few years we have seen the growth of tensions on the U.S. side of the border, perhaps the inevitable result of the increasing merchandise trade deficit.

Part of the explanation for these problems may be the 30 percent differential in the values of the United States and Canadian dollars. However, Canadian Government actions to support certain industries and to encourage exports are faulted by many United States producers as constituting unfair trade practices.

During the last several years, the International Trade Commission has seen a run of trade cases involving Canadian respondents. They range from steel pipes and tubes to lumber, potatoes, raspberries, and ground fish. At the moment the lumber controversy is the high visibility problem.

As you know, United States lumber producers maintain that Canadian stumpage prices are artificially low and are a form of government subsidy. Even allowing for transportation to United States buyers and rising logging costs in Canada, the low stumpage rates added to the currency differential make Canadian softwood very competitive in the United States market.

As a result, imports of Canadian softwood lumber have climbed steadily. The volume rose 10 percent between 1984 and 1985. In 1985 Canadian lumber captured 32 percent of the United States market, up from 29 percent the year before. Despite a robust housing market and the rise of U.S. consumption of softwood lumber to an alltime high last year, the U.S. industry actually produced less in 1985 than it did in the previous year.

One aspect of the lumber question involving shakes and shingles is currently before the International Trade Commission. Several weeks ago we ruled that pursuant to the so-called "Escape Clause," section 201 of the law, that domestic producers of shakes and shingles were seriously injured by the increased imports. The Commission will make its remedy recommendation next Tuesday, and the recommendation will then go to President Reagan and he will have 60 days to consider it.

Mr. Chairman, as you pointed out in your introductory remarks, there are many aspects of United States-Canadian trade that we might discuss, and I think this might be a good place for me to conclude my introductory comments and respond as best I can to the questions you may have.

[The prepared statement of Mr. Eckes follows:]

PREPARED STATEMENT OF HON. ALFRED ECKES

Good morning Mr. Chairman and members of the Subcommittee. I am pleased to have the opportunity to testify on trade with our neighbor and major trading partner, Canada, from the perspective of a Commissioner of the U.S. International Trade Commission.

As you are aware, the Commission is not charged with making trade policy. Negotiating the terms of the trade agreements that may be developed with Canada in the coming months is not a Commission responsibility. However, the Commission is involved in U.S.-Canadian trade issues in two important ways. First, as a repository of trade agreement historical data and a collector of trade statistics and tariff information, the Commission conducts research and provides technical advice to Congress and to those administration officials who are responsible for negotiating trade agreements. Secondly, as a quasi-judicial body, the Commission rules on petitions from domestic industries claiming injury from Canadian imports. Thus as an ITC Commissioner, I view United States trade with Canada at the macro statistical level and also at the micro level of the fishermen, steel makers, potato farmers, hog growers, or lumber mill operators who bring their problems to us.

Trade relations with Japan have occupied center stage for so long that we tend to forget that our neighbor to the north is our principal trading partner. Two-way trade between the

United States and Canada totaled nearly $114 billion in 1985, almost 27 percent more in value than trade with Japan This two-way trade with Canada has grown very rapidly in the 1980's, increasing about 36 percent since 1981.

Unfortunately, the 1980's also produced a rapid change in the balance of trade with Canada. A merchandise trade surplus of $7.6 billion in 1981 deteriorated to a deficit of $23.9 billion in 1985, almost 18 percent of the total U.S. trade deficit. Although U.S. exports increased 18 percent from $38.1 billion in 1981 to $45 billion in 1985, imports from Canada increased 50 percent in this period, rising from $45.8 billion to $68.9 billion.

Motor vehicles and parts are the major export and import items in our two-way trade with Canada. Other major imports in 1985 included newsprint, crude petroleum, natural gas, and softwood lumber. Other exports to Canada included parts of office machinery, computers, telecommunications equipment, gold bullion, and coal.

There is no question that trade with Canada is important to our economy. The United States exports twice as much to Canada as it does to Japan (the Province of Ontario alone received more U.S. exports in 1984 than did Japan); and the value of our exports to Canada approximately equals the value of exports to all the countries of the European Economic Community. There is also a difference in the quality of our exports to Canada. Although roughly three-quarters of our exports to Japan and a

third of those to the EEC are agricultural products or other unfinished goods, most of our exports to Canada are manufactured and semifinished goods. This translates into jobs for American workers.

The two-way trade is considerably more important to Canada. Almost 72 percent of imports to Canada come from the United States. Most significantly to Canada, more than 75 percent of their exports are sent to this country. With a relatively small population, only about 11 percent of the U.S. level, Canada needs the large and prosperous market south of its border to fuel economic growth.

The United States and Canada are also closely tied through financial relationships. The United States has approximately $90 billion in direct and indirect investment in Canada, while Canada has $30 billion invested in this country. This makes Canada the third largest source of investment funds for the United States.

With much to gain from two-way trade, the United States and Canada nurtured a special bilateral trading relationship which resulted in such agreements as the Automotive Products Trade Agreement of 1965, allowing free trade in automotive products. However, since the late 1960's this special relationship has been increasingly challenged.

Strain on the Canadian side developed from a realization of the extent to which the Canadian economy was dependent upon the

policies and the economic health of the United States. Also, concern developed in the late 1960's over the extent of U.S. investment in Canada and the possibility of eventual cultural homogenization.

As a result, in the early 1970's, Canada decided that it no longer wished to maintain the status quo or seek closer ties with the United States. Instead it chose a "Third Option" of attempting to diversify economic relations and lessen its dependence on the United States. The Foreign Investment Review Agency (FIRA) was established in 1973 to screen foreign investment, adopting a review process and setting performance requirements that served as obstacles to U.S. investment. Canada also tried to emphasize trade with Japan, Europe and the Pacific Rim countries, succeeding over the following decade to increase the value, but not to any extent the proportion, of trade with those countries.

The recession in the early 1980's and a change of government for Canada acted to alter these policies. Trade was the major force lifting Canada from recession and unemployment problems, and the United States was still the dominant trading partner. Canadian leaders realized that increasing hostility to Canadian trade policies and growing protectionism in the United States could reverse economic progress.

In 1983, the Canadian Government released a report urging a closer relationship with the United States and the development

of a sectoral free-trade agreement. There were many problems with a sectoral approach, however, and in September, 1985, the Government's Royal Commission on the Economic Union and Development Prospects for Canada proposed negotiating a free trade arrangement with the United States that would cover about 80 percent of all goods-producing sectors.

The President has submitted a request to Congress to enter into negotiations with Canada on free trade between the two countries. If Congress does not disapprove the request within 60 days of the submission (early May), the administration will proceed with negotiations. In May or June, the Commission then will receive a request from the President for an investigation of the probable economic effects of proposed tariff eliminations.

The success of such negotiations is dependent upon addressing the concerns of both the Canadians and the United States. The last few years have seen the growth of trade tensions on the U.S. side of the border, the inevitable result of the increasing merchandise trade deficit with Canada. Part of this deficit may be attributed to the 30 percent differential in the value of U.S. and Canadian currencies. However, Canadian Government actions to support certain industries and encourage exports are faulted by many U.S. producers as constituting unfair trade practices.

Canadian products are increasingly the target of petitions to the Commission and the Commerce Department under title VII

of our trade law. During the past few years, these products have varied from steel pipes and tubes to pork, potatoes, raspberries, and groundfish.

One group of investigations that raised considerable controversy when they were considered in 1982 involved products that are the source of even more concern today. In October 1982, petitions were filed with the Department of Commerce and the ITC by domestic industries claiming material injury from allegedly subsidized imports of softwood lumber, softwood fencing , and shakes and shingles. As these were countervailing duty petitions under title VII of the trade law, responsibility for the three investigations was bifurcated, the Department of Commerce determining whether the products were subsidized and the ITC determining whether domestic industries were materially injured by reason of the imports. The preliminary determination of the ITC in each investigation was affirmative; the Commission found a reasonable indication of material injury resulting from the imports. However, Commerce determined that the alleged subsidy in each of the investigations was not countervailable, as it was generally available to all Canadian citizens and not targeted to specific industries. The three investigations were terminated.

What was the source of the principal alleged subsidy in each of these investigations? It was the granting of stumpage rights and the stumpage pricing policies of the Canadian

central and Provincial governments, which resulted in relatively low prices for the major factor in lumber production, raw timber. Most of the Canadian timber is publicly owned -- 80 percent of the forest land is Provincial Crown land and 12 percent is Federal Crown land. Although the stumpage fees differ by Province, the pricing policies in general allow long-term agreements for harvesting and fees set at appraisal value (British Columbia) or by regulation. There are periodic price adjustments, which moderate the risks of a falling market for the harvesters while presumably limiting their profit potential somewhat in a rising market.

In the United States, on the other hand, only 28 percent of the timber land is publicly owned. Appraisal value does not determine stumpage prices on public or private land; rather, timber is sold at auction to the highest bidder. Price levels under such a system fluctuate according to bidder speculation as to future market conditions over the three to five years the timber will be cut.

As the post-recession housing recovery in the United States got under way, the gap between U.S. and Canadian stumpage prices widened dramatically. During 1978 to 1981, Canadian stumpage prices and timber dues, measured in U.S. dollars, were approximately one-fifth of U.S. stumpage prices. However, despite a rising market after 1982, Canadian stumpage prices fell to roughly one-tenth U.S. prices by 1984.

U.S. lumber producers maintain that Canadian stumpage prices are artificially low and are a form of government subsidy which significantly affects the delivered prices of softwood lumber and other softwood products. Even allowing for transportation to U.S. buyers and rising logging costs in Canada, the low stumpage rates, added to the currency differential, make Canadian softwood very competitive in the U.S. market. As a result, imports of Canadian softwood lumber have climbed steadily. The volume rose 10 percent between 1984 and 1985 alone. In 1985, Canadian lumber captured 32 percent of the U.S. market, up from 29 percent in 1984.

Despite a robust housing market and the rise of U.S. consumption of softwood lumber to an all-time high in 1985, the U.S. industry actually produced less in 1985 than in the previous year. Prices remained flat throughout 1985, although the demand for lumber increased sharply. With many mill closings and falling employment in the 1980's, it is little wonder that U.S. producers are concerned.

The question of whether artificially low natural resource pricing constitutes a countervailable subsidy is still pending in the courts. The Court of International Trade last October disagreed with the Department of Commerce's broad application of a general availability test to reach a negative subsidy determination in an investigation involving Mexican natural gas pricing. However, Commerce is attempting to appeal this decision to the Court of Appeals for the Federal Circuit. Of

course, pursuing this issue through the courts is a time-consuming process. Additionally, as you know, legislation has been introduced in Congress to address the general problem of natural resource pricing and also the specific problem of wood product imports from Canada.

Meanwhile, U.S. producers of shakes and shingles chose another section of existing trade law under which to petition for relief. In September 1985, they filed a petition under section 201 charging that increased imports from all sources were a substantial cause of serious injury. Since most shakes and shingles are made from softwood (Western red cedar), and virtually all imports come from Canada, this was addressing much the same import problem as the earlier CVD investigation of shakes and shingles without the necessity of proving that the imports were unfairly traded.

The standard for injury in a section 201 "escape clause" investigation is much higher than it is in a title VII investigation. However, the domestic industry believed that investigation data would meet the higher standard. A majority of the Commission agreed: the Commission made an affirmative injury determination on February 26, 1986, and will vote on a remedy recommendation next week. Then the Commission recommendations will be sent to the President on March 25. The President may or may not concur with the Commission. As you may recall, under section 201, the President must take into account certain factors in addition to those considered by the Commission, including the national economic interest.

The increasing number of petitions against Canadian products undoubtedly has helped to spark Canada's interest in free trade negotiations. However, the separate industry concerns expressed in these petitions could impede the progress of negotiations. For example, there is considerable pressure on the administration to resolve the lumber issue with Canada before launching broader negotiations. Meetings on the lumber question are proceeding at this time, as the industry and many Members of Congress are watching with interest. As part of the background material for these discussions, the U.S.Trade Representative requested the Commission to do an investigation under section 332 of the Conditions Relating to the Importation of Softwood Lumber into the United States. The study was submitted in October, 1985.

Other obstacles must be addressed in preparing for productive trade discussions. For example, it is my understanding the administration has taken the position that all products are on the table for discussion with Canada, including sensitive items such as lumber, steel, and textiles. On the other hand, Canada's proposals for the negotiations indicate that it desires some exemptions from any agreement, particularly in areas that might affect their cultural sovereignty. Between 70 and 80 percent of Canadian imports now enter the United States duty free and between 60 and 70 percent of U.S. exports to Canada enter that country without tariffs. It is clear that recognizing too many exemptions at the outset would not permit the negotiations to effect much change.

Another Canadian goal in the negotiations is guaranteed access to the U.S. market, which would involve a limitation of or an exemption from the application of U.S. title VII law. The U.S. - Israel agreement did not provide for such exemption (although it did provide that if imports from Isreal were not found to be a contributor to injury in a 201 investigation, they could be exempted from any resulting quotas or tariffs). It is considered unlikely that a title VII exemption will be a feature of any U.S. - Canadian agreement.

Once launched, the U.S. - Canadian negotiations are expected to take from two to four years. Given the election timetables in the two countries, there is concern that any delay will threaten the success of the discussions. Those who wish to accelerate the process recommend negotiating changes now that will be phased in over the future. However, this is also a subject for debate. The Canadians have proposed a two-track phase-in of tariff reductions which would allow Canadian industries more time than that granted U.S. industries to adjust to the conditions of liberalized trade. Some domestic industries undoubtedly will mount strong opposition to this approach.

As an ITC Commissioner dealing with an increasing number of investigations involving Canadian imports, I, of course, would like to see a prompt resolution of the issues impeding trade negotiations. The Commission will serve, as it has in the

past, as a source of trade information and technical advice to assist Congress and the President in this effort.

Mr. Chairman, that concludes my remarks. I will be happy to answer your questions now if I am able, or will call upon the Commission's staff experts to answer more technical questions in writing.

Senator SYMMS. Thank you very much for a very thoughtful and conclusive statement. I appreciate it very much, Mr. Commissioner.

I wanted to ask you where you closed there on the shakes and shingles. There were 1,200 shake and shingle plants, and there are now about 40 or 50 cedar plants I understand.

So do you have any comments on, even if injury is found—is that what you said, that injury was found?

Mr. ECKES. The International Trade Commission made an affirmative finding by a vote of four to two on the issue of injury, and now the whole Commission, all six Commissioners will address the issue of remedy and make a recommendation on Tuesday, which will then go to the President. The options range, of course, from quotas to tariffs to negotiating orderly marketing arrangements, and there are many other options of a statutory variety that the President has that we do not have.

Senator SYMMS. I guess my complaint is with 90 percent of them out of business, or at least 90 percent of the mills already out of business, what do we do about them? It is a little after the fact.

Mr. ECKES. Some of the facts are not fresh in my memory, Senator, but as I recall, there has been relatively rapid entry and exit into that industry. So I suspect that some might be able to reenter if relief such as the Commission might recommend were in fact effected.

Senator SYMMS. Well, that could be with people that are already in the lumber business, that they could reopen that aspect.

Now you have made a very good point I thought in your statement that the jobs produced in the Canadian market are very important for the United States producers, in other words, that we be able to continue to sell in Canada. What are the types of products that we are selling in Canada, automobiles primarily?

Mr. ECKES. The principal trade is automobile trade and, incidentally, that has turned to a deficit recently. We have, as you know, since the mid-1960's had basically a free trade arrangement with Canada in automobiles. On automobile parts we are still running a small surplus, though that surplus has diminished. Of course, the trade extends into telecommunications, and I have a whole printout here of trade items.

Senator SYMMS. But in general what you are saying is the products we are sending to Canada are manufactured products?

Mr. ECKES. Primarily so.

Senator SYMMS. And the products that we are sending to Japan are not manufactured products primarily?

Mr. ECKES. That is correct. A high precentage of them are unfinished, raw materials or agricultural products. Just looking over the TSUS entries for our exports to Canada in 1985, passenger automobiles lead the list, and then one moves down to various things like gasoline engines and transmissions which are obviously parts for automobiles, but bituminous coal looms relatively large on the list and air-conditioning equipment and iron ore seems to be exported to Canada as well.

Senator SYMMS. But isn't this a tremendous economic impact in Canada and for Canadian citizens in general where 70 percent of their trade is with the United States?

Mr. ECKES. Yes.

Senator SYMMS. Shouldn't that give us tremendous leverage to get some of these unfair practices that the Canadians are using straightened out?

Mr. ECKES. I am not a negotiator, but I would suppose so, yes.

Senator SYMMS. In other words, if we shut the door on them, it is going to hurt them a lot worse than it is us. Would you agree with that? If we would slam the door on Canadian timber, hogs, cattle, whatever, or put a 30 percent tariff on it or a countervailing duty or a quota, any kind of a thing to limit their access freely to our market, would that have a much bigger impact on them in terms of what their recourse would be?

Mr. ECKES. Because of their dependence on the U.S. market and given the assumptions that you have established, I think that that is probably true. If one were to look at it from a national security point of view, they have vast minerals and oil and the like which may be as mutually advantageous for us to engage in trade.

Senator SYMMS. Well, if Canadian prices of the stump are 10 percent of what the U.S. prices are, and that is according to my estimates and what Congressman Craig just said, does that estimate square with calculations performed by the ITC? And if it does, what are the key factors which explain this huge price divergence between the two countries?

Mr. ECKES. Well, the International Trade Commission did find that overall Canadian stumpage prices and timber dues were from 9 to 23 percent of the United States stumpage prices. So the figure of 10 percent seems to be appropriate in some areas, particularly when you look at the Pacific Northwest, as I recall the figures.

As I understand it, and we have heard some testimony on it, though I don't purport to be the world's leading expert on it, and you probably have a number of people in the room who are more familiar with the details of it than I, it has to do with the type of appraisal system that is used in Canada and the fact that we have competitive bidding in the United States that often leads to much higher prices.

Senator SYMMS. Where our Government serves as a monopoly supplier and we have these free enterprise wood processors out there trying to buy timber and then we limit how much is put up for sale, the Federal Government does, through all kinds of reasons, but to the person who is the bidder, the reasons become irrelevant.

I mean they put so much timber up for sale and they go in there bidding against their own competitors and they bid the price up in order to get a supply, and we put them in an extremely unfair situation it appears to me.

Mr. ECKES. Another aspect of this that might deserve brief comment, and that is that probably some United States mills, particularly the shakes and shingles people might like to obtain Canadian timber, but the Canadians seem to have what is in effect export controls on timber.

Senator SYMMS. Well, with respect to the export subsidization that they do and import restraints that they have, which we will hear about from our furniture manufacturer here later this morning, are the Canadian trade practices that much more self-serving

than those trade practices that are practiced by our Asian and European partners?

Mr. ECKES. Generally, I would say no. We have had a number of cases, as I said, involving the Canadians, but increasingly, our caseload seems to be shifting to the newly industrialized countries of Korea and Taiwan.

Senator SYMMS. In other words, it is just another example of the good old U.S.A. being the Uncle Sucker.

Mr. ECKES. We see a lot of dumping and a lot of unfair subsidies from other countries. With the Canadians there have been a number of findings that turned out favorably in our judicial procedures to the Canadians and a number that, of course, have not. So the pattern is a little more mixed I think.

Senator SYMMS. I am going to let Congressman Craig ask a question or two, and I may have some more.

But, in other words, what you are saying, and I will just close up with this question and then let the Congressman ask some questions, do you expect that the ITC, from what you have said, Canadian portfolio is going to grow? And if you expect it will grow, in other words, more complaints and more problems, what will be the major areas where you expect to see these complaints of either Canadian trade restraint against our products or subsidized products coming this way?

Mr. ECKES. It is very difficult for me to predict that. We know that steel and textiles are very sensitive in terms of the negotiations with Canada and we have seen a number of steel complaints—pipes and tubes, oil country tubular goods—and all in recent months. Now whether there are more products yet to come, I simply don't know.

In dealing with Canada, we have the widest range of products that come to our attention from the potatoes and the raspberries, the small industries, but very important to their participants, the vegetables people. So I am constantly astounded at the wide range of our trade in terms of the complaints I see.

Senator SYMMS. Congressman Craig.

Representative CRAIG. Thank you very much, Mr. Chairman.

Commissioner, I am pleased to have a chance to hear your testimony this monring, and I know that you folks have been deeply involved in this issue and, as you have mentioned, the Canadian portfolio is growing.

I guess I want to ask you more of a philosophical question instead of one specific to the industry because the facts and figures are relatively clear on the table at this moment. It is now a matter of question as to what this Congress will do and this Government will do in relation to the Canadian Government, that we will ultimately arrive at either through negotiation or through legislation and law change.

In your overall investigation of this Canadian portfolio, aren't you finding, or at least—I guess I would be leading you if I said that—is it possible that you are finding that there are two fundamentally different approaches between the Canadians and the United States as it relates to government and its relationship with private industry and utilization of the resources?

Mr. ECKES. Congressman, I really haven't thought about it in that context. The contrast you are drawing seems to me quite clear with reference to some of the Asian countries which have a totally different legal system and a totally different culture and we see it in terms of considerable State intervention in the economy.

There are a lot of similarities between the United States and Canada and there are some differences, particularly the so-called subsidies that we are referring to here with reference to the timber problem.

But I see these as kind of micro differences and not major ones that perhaps could not be negotiated in a set of negotiation.

Representative CRAIG. Is it a micro problem when a Provincial government who is in large part responsible for its forests because they are Provincial forests? Is it a micro problem when they decide to use that resource as a tool for economic expansion in their interior and basically provide it to an industry at no charge?

Mr. ECKES. Certainly not to the industry with which it is competing.

Representative CRAIG. Absolutely.

Mr. ECKES. I don't want to reach a judgment on it because of my judicial role.

Representative CRAIG. But that is what I am suggesting. We choose in this country not to use our natural resources as that kind of a tool. I don't know that we have in our contractual relations or our bidding processes an employment factor.

Now the U.S. Forest Service has in its charge a concern for community stability. That word finds its way through our law. But we do not find our way through the pricing structure or the availability of the product to the producer, the kind of relationship that that product and its owner, the Provincial government of Canada, has with its producer.

Mr. ECKES. The fact is if you look at the forest plans, you could make a case that just the opposite is true.

Representative CRAIG. And therein is a very fundamental difference. I guess the reason I ask that is because if you look at cattle on the hoof, you look at pork and you look at raspberries or potatoes, there is a bottom line out there at which that government says that producer must stay at this economic level to survive. We will assure that he stays there or she stays there. They also say that in the form of grants and heavily subsidized loans to producers.

I guess the reason I ask that question is how do we create a free trade environment between two nations who have some substantial different approaches to the private sector economy of their nations?

Mr. ECKES. You raise a very excellent question, and let me respond to it this way.

In the course of the free trade negotiations that are beginning, it is my understanding that the Canadians would like to be exempted from United States countervailing and antidumping inquiries which are designed to ensure that trade is fair.

My response to you would be that one way to maintain the basic fairness of a free trade arrangement is to have these judicial proceedings so that impartial administrators on both sides can investi-

gate whether there are subsidies and whether one party is dumping or not.

And, incidentally, the Canadians have a tribunal much like the International Trade Commission that is held in very high account by international standards. They have a quasi-judicial body that does inquiries such as we do. And I frankly think that there is a place for both bodies to play in a free trade arrangement.

Representative CRAIG. In other words, what you are saying, Commissioner, is that if a free trade environment was created in this hemisphere, that to keep it balanced equal and whatever term we would approach, you need the judicial style body on each side weighing those factors. I mean how do you evaluate the fairness in the marketplace of a cow produced on the western ranges versus a cow or a calf or a feeder animal produced in the plains of Saskatchewan?

Mr. ECKES. Those are very difficult judgment questions. The real problem that we have at the current time, as you know so well because of your discussion of the natural resource subsidy issue, is that the type of alleged subsidies we are talking about with reference to lumber are not perceived by the Commerce Department to be countervailable. So the law doesn't allow those who administer the law to apply it against those practices.

Representative CRAIG. Well, we are trying to create that so that they can allow it and exactly from that standpoint. There is a basis at which you say if a nation's intent is to utilize a resource for the purpose of employment. That is what the Canadians are doing, and it has to move in foreign markets for its sale, it is fair, and the extracting factor, or that portion as to a nation's relationship with its producer as to what it provides the resource for becomes a question, and there are some very different approaches between our nation and Canada. Let me thank you very much for your testimony.

Mr. ECKES. Thank you, Congressman.

Senator SYMMS. Thank you very much.

In other words, what we are hearing is that we do need legislation if we want to use countervailing as a way to try to make the playing field level.

Mr. ECKES. Certainly on the timber issue. However, this is before the courts. It is my understanding that the Court of International Trade reversed the Commerce Department's finding and I believe that issue may be appealed to the Court of Appeals for the Federal Circuit, but no speedy remedy is contemplated.

Senator SYMMS. I might also mention that a group of us, a bipartisan group in the Senate, have introduced a comprehensive trade reform package under the leadership of Chairman Danforth of the International Trade Subcommittee, which I am also a member of, which has many mechanisms in it to streamline some of these unfair actions and expedite the process and limit administrative options to force a more bold position, I should say, on the part of the United States, because it just appears to me that the United States has exposed itself unnecessarily around the world as a policy.

I mean to set timber aside, and our farmers, who are making a profit, find out that they are paying taxes to the U.S. Government

who in turn finances the World Bank who in turn finances developing agriculture to compete against them in many parts of the world. We have done that with copper and we have done it with all kinds of phosphate and other products that we produce where our taxpayers finance their own competition.

I mean having free trade and competition is one thing, but financing your competition, to me I don't think that was ever in Adam Smith's book that you are supposed to be expected to be that dedicated to the cause of free trade that you finance your own demise.

And in this case we clearly have a government policy that is hostile to free enterprise in terms of the fact that the supply of the timber is held in the hands of a government monopoly.

We have got a whole Justice Department down here filled with lawyers that are supposed to be looking after antitrust cases, but you never hear that side of the argument. But here is a clear case of a government monopoly of the supply of timber.

If the States held control of that timber, as the Provinces do in Canada, you would have quite another situation. Because of the economic pressures in the States, they would make some of that timber available.

I can take you to Idaho and all the way from where the Salmon River joins the Snake north and virtually, or at least where the Clear Water comes in, I should say, straight on north there is nothing but timber all the way to the Canadian border, but it is all held up for one reason or another. Either it is an environmental impact statement or it is some other interest, a grizzly bear habitat, a caribou habitat, a wolf habitat or something, but whatever it is, it seems to have a priority over the people, and I think that is really what Congressman Craig is pointing at.

I appreciate your digging into this issue, and I would only let you go with one closing parting comment, that whatever you can do to expedite the process, that is what I think is needed in our trade because our responses are so slow that by the time we respond, the people we were trying to protect are already bankrupt or have gone out of business and moved out of the State.

Maybe it may help somebody else in the future, but it does little good to that entrepreneur or to that family that are on unemployment or completely dispirited because of a job loss or plant closure or a community that is down as a result of this.

It is very dispiriting for people to have these things happen when they know that the resource is available and they can't seem to get their hands on it at a price that competes.

Mr. ECKES. Senator, if I might say in closing, we at the Commission also are much interested in the trade legislation you folks are working on.

Senator SYMMS. The trade what?

Mr. ECKES. On the trade legislation you are working on. And I frankly think that there are some ambiguities in the law where my colleagues and I could much appreciate some more specific guidance from Congress.

Senator SYMMS. Good. Well, any recommendations you would have for me on that, I would welcome it, and we would like to work with you on it. If you have recommendations that you would like to

make, we would like to do things so that we could expedite this process so that when there is an unfair practice taking place that action can be taken by the U.S. Government at a very rapid rate.

If we had done something 2 years ago on the Canadian timber issue, it wouldn't be a crisis today. It could have been solved, in my view, if there could have been a rapid response to it.

Mr. ECKES. Two years ago the Commission made an affirmative finding on that. Of course, it was terminated later on.

Senator SYMMS. Right. Thank you very much, Mr. Eckes.

Mr. ECKES. Thank you.

Senator SYMMS. Our next witnesses will be—and I thought I would call up the two witnesses together and have them both give their presentations—Mr. Tom Richards, president of the Idaho Forest Industries and Mr. Lloyd Stahl, director of the Black Hills Forest Resource Association, and then we will have questions for both of them.

We will take about a 2-minute recess at the present time.

[A brief recess was taken.]

Senator SYMMS. We will commence with the hearing now, and I think maybe I will call up Mr. Nichols also to come to the witness table if he is here. I am going to take most of the testimony from the three witnesses I believe first and then I am going to have questions for all of you. But I think it might be kind of interesting to have two wood producers and one wood user at the table at the same time to point out that this may not be quite a two-way street here.

So, first, I want to welcome a good personal friend of mine and a very highly respected citizen of Coeur D'Alene, ID, Mr. Tom Richards, who is president of Idaho Forest Industries. They are classified as a small business under the Government definition, which means that they hire about 500 employees I believe is right, isn't it, Tom?

Mr. RICHARDS. Right.

Senator SYMMS. And it is very important to the community in Coeur D'Alene. They have been in business for a long time and have been a very stable influence on the communities that they do business in and have been under tremendous pressure in this so-called booming wood market in the last 2-year period. So we look forward to hearing from Tom. He has come a long way and we are delighted to have him here.

So please go right ahead, Mr. Richards.

STATEMENT OF W.T. RICHARDS, PRESIDENT, IDAHO FOREST INDUSTRIES

Mr. RICHARDS. My name is Tom Richards. I am president of Idaho Forest Industries headquartered in Coeur d'Alene, ID. Our firm operates three medium-sized sawmills in Idaho and one in Oregon in which we employ approximately 400 people.

I want to take this opportunity, Senator Symms, to thank you for asking me here today to discuss the very serious problems currently facing the U.S. lumber industry.

Following the interest-rate-induced depression of 1980–82, the U.S. lumber industry by any measure should be enjoying good

times. The consumption of softwood lumber was at record levels in both 1984 and 1985 and should remain very close to these levels in 1986.

This strong consumption has been fueled by a strong market of about 1.75 million housing starts in both 1984 and 1985 and by record usage of softwood lumber in other key areas such as home repair and remodeling. Yet, despite this record consumption and healthy market, the U.S. lumber industry faces disaster. The U.S. lost a net 629 softwood mills between 1977 and 1984 and mill employment dropped by 25 percent.

Senator SYMMS. A net of 629?

Mr. RICHARDS. Right.

Senator SYMMS. How many is that out of?

Mr. RICHARDS. I would think we started in that period with slightly in excess of 2,000.

Senator SYMMS. So we are talking about over 25 percent of them have actually gone out of business?

Mr. RICHARDS. Correct.

Senator SYMMS. That is very instructive in terms of talking about efficiencies and people having to tighten up. If you are talking about a fourth of them falling through the cracks, that is absolutely devastating is what you are really saying then.

Mr. RICHARDS. That is correct.

I can tell you stories of efficient mills throughout the U.S. Northwest being forced to close despite the healthy U.S. lumber demand. The industry has pretax losses of over $300 million in 1984 and wrote off over $600 million in assets.

In addition to those plants that have closed, most of us who have continued to operate have instituted dramatic cuts in wages and benefits as part of overall cost-cutting programs. By early this fall it is safe to say that every plant that is still operating in the Western United States will have instituted similar cuts. These cuts range from $1.50 per hour to an excess of $4 per hour.

Now I would comment, I know there has been great publicity about the number of people laid off, Senator, and I can attest personally that it is painful to lay people off, but I can also attest that it is very painful to go to people that have worked for you for 10, 15, and 20 years and tell them that they are going to have a cut of $1 to $2 in wages and benefits.

There are many reasons for the problems that our industry faces, but the primary reason is a flood of subsidized Canadian lumber into the United States. Both Canadian and United States lumber manufacturers recognize that the source of the industry's problems is severe overproduction and the resulting recession level prices for lumber. The source of this overproduction is Canada. The reason for the overproduction is that the Canadian Provinces, which own in excess of 95 percent of the Canadian timber, provide timber to Canadian producers at a price that is far below United States prices and far below fair market value.

The real problem with Canadian-administered timber pricing is that it is noncompetitive, and let me just give you an example. I recently participated in a meeting at Hayden Lake, ID, sponsored by the Western States Legislative Forestry Task Force. At that meeting representatives of the British Columbia Ministry of For-

ests and the United States Forest Service were asked to appraise the same stand of timber. The timber stand was chosen by the British Columbia Ministry from an actual recent British Columbia sale and the stand was located just north of the Idaho border. So we were very familiar with it.

The British Columbia official said that his appraisal showed the stand had a negative value. So the timber was sold in Canada for a nominal fee of about $4.50 per thousand board feet. The United States appraiser said a minimum bid on the timber of about $14.50 per thousand board feet, but in our competitive market our company would have had to bid $41 per thousand to purchase that timber.

In the United States the same timber that would cost $4.50 in Canada would cost at least $41 in the United States. Now you can argue all you want about exchange rates, productivity, market shifts, price elasticities of demand, et cetera, but when my competitor is getting timber from his government at one-tenth of what I pay in our competitive market system for the same timber, I am going to have a very hard time competing. The British Columbia Government almost gives the trees away to benefit Canadian producers and we say that is clearly a subsidy.

The same is true across the continent. Government timber in Quebec cost a fraction of timber in the competitive main market. The administered price of timber in the British Columbia interior is a fraction of the market price in Idaho and Montana. The noncompetitive price on the British Columbia coast is a fraction of the market cost in Washington and Oregon, and there is no market justification for this difference.

The timber is the same timber. The terrain is the same. The simple truth of the matter is as the Ontario Royal Commission of the Northern Environment said, Canadian lumber firms do not pay a fair market value for government timber. The only way fair market value can truly be determined is by seeing what a willing buyer will pay a willing seller in a free market.

This becomes very obvious when you consider the sale of private timber in Canada. Private Canadian timber sold competitively often goes for 10 times the administered Canadian Government price. How can the Canadians claim they pay a fair price for timber when any competitive sale of Canadian timber goes for many times the administered price?

The Canadian industry has argued that their low timber prices are justified because Canadian logging conditions are so difficult and Canadian logging costs are so high. The Canadians told us that the cost of logs delivered to the mill in Canada and the United States is approximately the same. With Canadian firms paying one-tenth of what United States firms must pay for timber, this is simply not true. There is no reason why logging costs should be higher in Quebec than in Maine, and the same is true across the continent.

In Idaho, for example, the terrain and weather conditions are as bad as those in the interior of British Columbia and we can argue in southeast Idaho that the conditions are much worse.

In fact, in a recent trip to Northern British Columbia interior logging regions representatives of the United States lumber indus-

try were startled at the relative ease of logging conditions in the Prince George area. The fact of the matter is that the huge advantage that the Canadian Provinces give Canadian firms in the price of timber translates into a huge advantage in the cost of logs.

The recent report on the North American lumber industry by the International Trade Commission showed that Canadian firms have on average a $39 per thousand board foot advantage in the cost of logs delivered to the mill. Data Resources estimates that the low cost of government stumpage in Canada gives Canadian firms an advantage of over $52 per thousand in the cost of logs. Canadian assertions that their mills pay the same for logs that our mills do are simply incorrect. Undervalued Canadian timber gives Canadian producers a real unfair advantage.

Canadian provinces virtually give away timber to promote what the ombudsmen of British Columbia called short-term employment. In British Columbia the Province's ministry of forests reported that the Province has actually lost an average of $122 million Canadian over the last 3 reported fiscal years because cutting fees are so low.

The Ontario Royal Commission on the Northern Environment concluded that high levels of cutting were encouraged to protect jobs. This has certainly been an effective policy for Canadian Provinces. By giving timber to lumber companies at a fraction of fair market value, the Provinces have encouraged production and employment.

The problem is that when Canada promotes its employment, it also promotes production that would not otherwise be justified by the market. Real market-oriented growth in the United States is prevented. In effect, when Canada exports its growing production of subsidized lumber to the United States, it also exports its unemployment.

In 1985 Canada's production was running 75 percent above historic levels from the period of 1970 through 1975. U.S. production in 1985 was only 8 percent above historic levels. Canada's share of the United States market has grown from an average of 20.7 percent in the 1970–75 period to 33.5 percent in 1985.

While the United States lost over 600 mills between 1977 and 1984, Canada added a net of 85 mills.

Senator SYMMS. How many of those were American companies that moved north, do you know the answer to that?

Mr. RICHARDS. I don't think, Senator, that in this period any significant number of American companies have moved north. There has always been, as you know, a material presence of American companies in Canada. In British Columbia now I would say approximately 30 percent of the production is owned or controlled by United States interests.

Senator SYMMS. What I was wondering is if there were cases of some of the bigger timber and paper companies that have closed an operation in the United States but have opened up a new one in Canada that you know of?

Mr. RICHARDS. I couldn't attest to that.

Senator SYMMS. One of the big paper companies has said that they have conflicted somewhat of our position on this about which was the highest cost of production, and I thought that would be kind of an interesting point to find if that has happened. It doesn't

really matter whose they are though, the record speaks for itself. With 600 mills closing and 85 mills opening, I mean that is a net difference of 685. So that is the main thing. It shows the dislocation.

Mr. RICHARDS. The primary cause for this dislocation in the United States lumber industry and market is that the Canadian Provinces have made a decision to provide Canadian firms with timber at far less than a competitive fair value. I call that a subsidy.

The United States lumber industry can compete against any lumber company paying a fair price for its raw materials, but it cannot compete against Canadian Provinces bent on maintaining Canadian production even if they have to pay to have their trees cut down.

The Canadian industry has come up with a number of excuses for the ever increasing amounts of lumber flooding across the border. I would like to say, first, that it is very easy to come up with excuses when you receive a subsidy of over $50 on every 1,000 board feet of timber cut. Eliminate that subsidy and we in the United States will be glad to compete. Moreover, analysis of the Canadian excuses for increased market penetration shows that in fact the Canadian subsidies are the primary reason for the flood of Canadian lumber.

The Canadian lumber industry time after time after time says that the United States needs its timber and that a soft lightweight grade of construction lumber like Canadian spruce-pine-fir is preferred by builders to the heavier United States southern yellow pine. The fact is that the United States industry could easily supply the market for lightweight construction lumber if Canada dropped back to its historic share of 20 percent.

As for the so-called species preference for Canadian lumber, the fact that Canadian spruce-pine-fir is virtually identical to the western United States hem-fir, doug-fir and spruce-pine-fir that the Canadians have displaced from eastern, southern, and midwestern markets. Builders prefer Canadian spruce studs over hem-fir and/or spruce/lodgepole studs we produce in our two Idaho mills only when the price differential is so great it cannot be ignored.

The Canadians claim that the high value of the dollar is the primary cause of increased Canadian penetration into the United States market. The fact is that increased Canadian costs and a much higher inflation rate have largely eliminated the cost advantage that the Canadians would otherwise have from the high value of the dollar. The Canadians ignore the real value of the dollar.

In fact, a recent economic study of the effect of the exchange rate of Canada-United States lumber trade performed by Professor Adams of the Center for International Trade and Forest Products and Professor McCarl of Texas A&M University Department of Agricultural Economics shows that only about 36 percent of the growth in the Canadian market share is attributable to the exchange rate. Now that is a little higher number than our industry sources show, but probably more objective.

That suggests that almost two-thirds of the phenomenal increase in Canadian imports is due to subsidies. Once again, eliminate the

effect of the Canadian subsidies and we will compete favorably whatever the difference in the exchange rate.

For the past several weeks the United States dollar has weakened greatly against all of the world's major currencies with the notable exception of the Canadian dollar. Because the Canadian economy continues to be so weak, their currency has fallen as much or more than ours during this period. Instead of some relief from a falling United States dollar, we continue to pay the price of unemployed woodworkers wage and benefit cuts and fear of loss of jobs in this instance because the Canadians do not have their economic house in order. One must ask if it is fair to ask our employees to pay this price for the ineptness of a foreign government that continues to subsidize its producers.

The Canadians claim that they are more productive than United States lumber workers, but a December 1985 study of the United States International Trade Commission showed that when Canadian and United States workers made the same products productivity is approximately equal. We have compared the productivity of Idaho mills to those in the interior of British Columbia and find this definitely to be the case. Furthermore, United States wage rates for softwood lumber workers are significantly lower than Canadian wage rates, and we could underline significantly. The average interior British Columbia wage is about $16 an hour and in our industry in Idaho and Montana it is $8 to $11 an hour.

The Canadians also claim that any United States action which would stop the Canadian timber subsidies would drastically increase the costs of United States housing and throw thousands out of the housing market and thousands of Americans out of jobs. The study that the Canadians relied upon, however, has proven to be incorrect. A study by the Congressional Budget Office showed that a duty on Canadian lumber would only increase the cost of the average United States home by $300, pennies per months amortized over the price of the mortgage. In fact, the CBO directly and harshly criticized the study relied upon by the Canadians as being based on faulty assumptions.

I should also mention that the National Association of Home Builders has written a letter to Representative Gibbons arguing that legislation proposed by him, which we heard about earlier today, which would allow a countervailing duty case to be filed against Canadian lumber drastically increased the cost of housing.

After the CBO study, however, the home builders retracted that statement noting that the effect on the cost of a home had been grossly exaggerated. The industry number, I might mention, the increase in the cost of a house that we think should come about if we get this problem solved is identical to the CBO, about $300 per home.

The point is that we can sit here and dream up any number of reasons why the Canadians are capturing more and more of the United States lumber market from beleaguered United States producers, but until the Canadian subsidies are eliminated, we cannot compete on fair terms. The Canadians have built up over a $2 billion lumber trade surplus with the United States. The United States lumber industry only asks to be given a fair opportunity to compete on the same terms as the Canadians and we believe that

we can in this process eliminate part of the United States trade deficit with Canada.

Currently the administration is engaged in high-level lumber negotiations with the Canadians, but there is no indication that the Canadians are willing to eliminate the benefit they receive from their timber subsidies. Congress must strongly indicate that this problem must be solved. If these negotiations do not produce prompt action, I urge the Congress to act against the Canadian practice of providing timber at far less than a fair value.

There is legislation before the Congress that would define the provision of a natural resource at less than fair market as a subsidy. This would help eliminate the problem. There is legislation before the Congress which would place a duty on Canadian lumber and this would help eliminate the problem. In any case, the United States lumber industry and the communities and families that depend on it are only asking that they be given an opportunity to compete fairly against the Canadian producers. We cannot continue to compete against the Canadian Provinces. I feel strongly that our Government owes us that opportunity. Thank you very much, Senator.

Senator SYMMS. Mr. Richards, I thank you for a very excellent statement that spells out the problem.

When I listened to your testimony and hear you say that the Canadians are buying timber for 10 percent of what you are paying for virtually the same raw product, I marvel at the fact that you are even still in business, but I now that the reason you are still in business is because of a lot of dedicated work, not only on your part, but on the part of your employees, of those 400 people who are literally paying for that subsidy with a frugal operation and lower wages. Is that what you are really saying?

Mr. RICHARDS. Certainly. Starting with the recession in 1980 and 1982 and going through the recession we are in now, Senator, 42 months of that period from 1980 through today we have wages and benefits frozen in our company when, of course, normally you would have at least nominally inflation-meeting increases.

Starting late last year, as I stated, we cut wages and benefits. At the same time as we have frozen wages and benefits and now cut wages and benefits, we have made every effort to increase the productivity of our mills. Our four plants in Idaho today produce about 23 percent more lumber than they did in 1980 with the same work force and, of course, paying lower wages and benefits because of the cuts.

Senator SYMMS. Is there any evidence that the Canadian Central Bankers are manipulating Canadian currency?

Mr. RICHARDS. There may be, but not that I know of.

Senator SYMMS. In your statement you made the point, must one ask if it is fair for your employees or our employees to pay this price for the ineptness of a foreign government that continues to subsidize its producers. I think that question is one that needs to be looked at long and hard by the U.S. Congress.

We are delighted to have with us our colleague from New York State, Senator Al D'Amato, who has a problem in upstate New York of Canadian imports. We don't often think of New York as a timber-producing State out in the West, but I know that it is.

Following Senator D'Amato's opening statement, we will switch back to some questions that he may have to ask of Mr. Richards. Welcome to the subcommittee.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Thank you, Mr. Chairman. Let me commend you for holding this hearing.

Mr. Richards, let me first suggest that is is amazing that you are still in business because we have a situation that I have seen deteriorate over the past 5 years. I am not going to be diplomatic with our Canadian neighbors, where they talk a good game, but they subsidize every manner of product, whether it be lumber of whether it be other agricultural products. They are driving our farmers out of business and our lumber people out of business.

If one were to look at the record, one would find in 1985 that trade was something in excess of $114 billion between the United States and our neighbors to the north. We exported $45 billion worth of goods to Canada and we imported goods valued at $69 billion. That is a $24 billion deficit. That is second only to Japan's, and it continues to grow.

So, as we begin our negotiations with our neighbors to the north, I think we have to resolve several outstanding problems.

Recently, the issue of subsidization of Canadian lumber by the Canadian Federal Government brought many of my colleagues to the Senate floor, and although the lumber industry is not extremely large in my State, nonetheless, impacted together, constitute more than 2,000 companies, including lumber dealers, manufacturers of housing products, and homebuilders who employ 89,000 New Yorkers.

Although this pales in comparison to some of the other States like the State of Washington, it is rather significant. The granting of subsidies is not new to either the Canadian Federal Government or to their Provincial Governments. I have always found it very interesting that these subsidies are brought up with the Canadians, their Federal Government will deny these subsidies, but in essence, the Provincial government will be carrying them out.

Our New York potato and vegetable farmers are continually fighting Canadian neighbors just to maintain our share of the marketplace. So, low-interest or interest-free loans are provided to Canadian farmers by their Government, allowing them to sell their products in the United States market at substantially reduced prices.

What we are seeing, Mr. Chairman, is totally unfair competition, which, in many cases, is subsidized by the Canadian Government, either the Federal or the Provincial Governments. You see it in the lumber industry.

Mr. Richards has testified regarding what he has to go through in order to be competitive, and I think it is about time that our Government began to call the facts the way they are.

I don't understand why, whenever we are confronted with the situation of seeking fair play, our diplomats start the nail biting routine. They are afraid to call the situation the way it is, and I am going to say it clearly: The Canadian Government has, in many

cases, clearly targeted jobs. They have undertaken a program of subsidizing their industries to the disadvantage of our free economic, competitive system.

It is no longer just a question of the valuation between Canadian currency and American currency that creates this imbalance. When they target jobs, and when they start greater plantings than need be, and that is what they are doing, they have made a conscious choice to subsidize full employment, or employment in various areas. It places us at an extreme disadvantage.

So, Mr. Chairman, I think it is important that we focus in on this and that we let our colleagues understand that this is an important part of providing economic growth throughout all of the sectors of our economy. I commend you for holding this hearing, and Mr. Richards for your outstanding job in at least continuing the battle. I know it is frustrating. Thank you, Mr. Chairman.

Senator SYMMS. Thank you very much, Senator. We are delighted to have you here this morning.

I have got a series of questions I would like to ask. Are you in a rush to catch a plane, Tom?

Mr. RICHARDS. No.

Senator SYMMS. If not, then I would like to have Mr. Lloyd Stahl, executive director of the Black Hills Forest Resource Association testify. I know Senator Abdnor welcomes you to this subcommittee. He has a conflict this morning or he would be here. He is our ranking Republican on the Joint Economic Committee, but he asked that I pay my respects to you on his behalf and welcome you to the subcommittee. We are glad to have you here to testify, Mr. Stahl. We hope, if Senator Abdnor gets an opportunity, he will drop in here a little later. But please go ahead and make your statement.

STATEMENT OF LLOYD E. STAHL, EXECUTIVE DIRECTOR, BLACK HILLS FOREST RESOURCE ASSOCIATION

Mr. STAHL. Thank you, my name is Lloyd Stahl, I am the executive director of the Black Hills Forest Resource Association. The Black Hills Forest Resource Association is an association of lumber manufacturers dependent upon Forest Service timber for their raw material supply.

First, I would like to thank Senator Abdnor and you, Senator Symms, and the members of the subcommittee for inviting me here to discuss some problems currently facing the lumber industry in the Black Hills and in the United States lumber industry in general.

By all accounts the United States lumber industry should be very healthy at this time. There should be no need for my presence before this subcommittee. This is not the case, however. Even though housing starts are up and interest rates down, and we have a close proximity to our market, we are struggling to keep our heads above water.

The problem? Let's begin with the major marketplace for Black Hills lumber, the Midwestern United States.

During 1983, approximately 51.5 percent of the softwood lumber consumed in the Midwest was of Canadian origin. The lumber produced in the Black Hills must compete directly with Canadian

lumber. Canadian lumber is not better or worse than Black Hills lumber.

Producers on both sides of the border are competing for the same market with similar products. Why then should Canada have over one-half of the market? The answer is simple, price. The Canadians can underprice the United States producer. Are Canadians more efficient in their sawmill operations? By all accounts, they are not more efficient. In the Black Hills during 1984, the lumber manufacturers were able to lower their manufacturing costs almost $17 per thousand board feet as compared to 1983. Yet the Canadians are still dominating the market.

The Black Hills producers are much like their Canadian counterparts in that both are dependent upon Government timber for their raw material and both compete in the same markets. Both Governments use a residual value appraisal to arrive at the market value of the timber, and both governments put environmental constraints on logging operations.

There are subtle differences which must be understood if we are going to understand how Canadian lumber can outcompete United States lumber.

In interior British Columbia the producers must pay a stumpage value derived from subtracting the cost of production from the sales value. That is the price paid to the Government, no more or less. In the United States, Forest Service timber is appraised in a similar manner. But, in the United States the producer does not automatically receive a contract for the timber; he must now bid against other producers to obtain that contract.

The appraisal started with a sales value of lumber which is dominated by Canadian producers. When the stumpage value was determined the Canadian producer was assured of timber at the appraised price, while a United States producer had to start bidding for the timber with no assurance of obtaining the contract. The Canadian producers are not only assured of the supply, they are also assured of the price paid. Certainly they can dominate the market under these conditions. That is why Canadian softwood lumber production has almost doubled since 1975, and United States production has only increased 18 percent. During the same period United States housing starts have increased 50 percent. In 1985 the Canadians captured over a third of the market in the United States.

Earlier, I had mentioned an assured supply of timber for Canadian producers. That is not the case in the United States where producers must bid for their right to harvest timber. Competitive bidding for timber sale offerings results in stumpage prices which exceed the appraised price. The average bid for ponderosa pine timber in the Rocky Mountain region during 1984 was $21.92 per thousand board feet, over five times the stumpage price paid in interior British Columbia.

What would happen to housing costs if something were done to create a fair market for United States lumber in the United States? Using 1967 dollars as base index dollars—constant dollars—and combining all softwood lumber prices paid to producers, United States softwood lumber prices were $2.60 higher in 1984 than in 1950, and $4.40 lower than 1975.

Other building products, such as concrete, have increased $4.10 between 1950 and 1984 and have increased $2.20 since 1975. Building brick has increased $25.60 since 1950 and $21.20 since 1975. We do not believe that a fair increase in lumber prices will make a significant change in the cost of housing.

While lumber prices have increased $2.60 from 1950 to 1984, national forest stumpage prices for ponderosa pine have increased $17.10. We believe that $14.50, the increase in stumpage over sales realization, indicates a significant improvement in the sawmill efficiency. The United States lumber industry is not a dinosaur whose time has come. It is a forward-looking industry which should be competitive in world markets.

At this time I would like to thank Senator Abdnor for his efforts in maintaining the timber sale program for the Black Hills National Forest. A program which should assure the continuation of the Black Hills lumber industry, at least from the supply side.

However, if Canadian lumber continues to arrive in our market area with the same stumpage price advantage it currently enjoys, it is doubtful that the supply can be fully utilized. This leads to another problem, the cost of production. When manufacturing facilities are utilized at less than full capacity, the fixed cost per unit manufactured increases; further depressing our ability to compete with Canada.

We believe that we can compete if given a fair chance. The obstacles we face are not of our own creation. Canadian Government policies and practices in timber supply and pricing are formidable obstacles which must be overcome. While the United States lumber industry cannot control the general economic health of this nation, it can, if given the chance, help to reduce the huge deficit we now face. The conversion of timber into useful wood products is in reality the creation of wealth, but with unfair competition, the United States lumber industry cannot provide the economic benefits for individuals, city and county governments, or State and Federal Governments.

We are not asking that Canadian imports be banned, but only that they compete fairly with United States products. There is room for Canadian lumber in the United States market. There is also room to expand the United States production. Competition on a fair basis will also help to create a more stable economy in Canada. When Canadian producers pay a fair rate for government timber, the Canadian Government will benefit the same as the United States Government, through Treasury receipts. All parties will be winners, and that is an excellent compromise. Thank you.

Senator SYMMS. Thank you very much.

The thought just occurred to me, having two lumber people at the table, and I know, Mr. Stahl, you are not actually operating a mill, but you represent people who operate mills, what would happen if one of your members and Mr. Richards got together before the U.S. Government has an auction of timber and decided to say well, let's just don't bid each up. We are going to keep our price down a little bit so we will be more competitive with the Canadians.

Now realizing that the United States Forest Service puts a floor price that is still higher than the Canadians, what would happen to them if they did that?

Mr. STAHL. There is a place called jail, and there are antitrust laws that prevent that. [Laughter.]

Senator SYMMS. So, in other words, what we are talking about is not only a government province that wants to use the timber as a social objective and an economic objective to provide jobs, but on this side of the border our producers, if they even try to combat that unfair competition, would get free room and board and the ultimate in Social Security for many years to come.

Mr. STAHL. Yes, sir. [Laughter.]

Senator SYMMS. Well, I think that is a point that needs to be made.

What is the percentage of your producers in the Black Hills, what is the percentage of their cost as in stumpage?

Mr. STAHL. Stumpage is just about—we are lucky in the Black Hills because it doesn't take a third. It is more like about a sixth of our total cost.

Senator SYMMS. What does your cost run in the Northwest in general?

Mr. RICHARDS. It runs between 20 and 30 percent.

Senator SYMMS. Between 20 and 30 percent. So it is a big cost.

Mr. RICHARDS. It is a very material part of the production cost.

Senator SYMMS. A big cost. What do you think the impact of the mill closures have had on the economy in Idaho? We are losing population, in my view, but do you concur with that?

Mr. RICHARDS. Oh, no question about it. The impact of course in smaller communities, Senator, you and I both have visited where the mill that was shut down was the only employer and the end result has just been dramatic.

In the larger communities you see it in the unemployed mill worker who can't find work or has a very difficult time and tries to go to work in the tourism industry and years and years and years of his training don't fit tourism and service industries. So after feeble attempts to find employment, most of these people end up on the unemployment rolls.

Senator SYMMS. And is it your estimate that the United States mills are operating at about 80 percent capacity in Idaho?

Mr. RICHARDS. I think in the Northwest as a whole it is running slightly in excess of 80. I think in Idaho we are doing a little better than that. I think we are closer to the 85-percent number.

Senator SYMMS. Let's talk about labor productivity. From what I have heard of your statement and know of the problem from past conversations, it has been my view that labor productivity has greatly increased in the Pacific Northwest. Is that your——

Mr. RICHARDS. Oh, greatly increased.

Senator SYMMS. I mean it has been a dramatic improvement in quality and quantity of work produced per man hour.

Mr. RICHARDS. Most of the mills that survived the first recession, the interest rate induced recession of 1980 or 1982, made the decision at that time that if they were still going to be in business, they had to increase productivity remarkably.

We can look at a picture of 600 less mills. Yet, we are producing as much or more lumber than we did 4 or 5 years ago. So the productivity of our plants and our people has increased just remarkably.

Senator SYMMS. Is that true in the Black Hills, Mr. Stahl?

Mr. STAHL. Yes, sir. We have the same situation in the Black Hills, plant improvements to make them more efficient and more automated logging even.

Senator SYMMS. What species are you primarily harvesting there?

Mr. STAHL. Ponderosa pine and white spruce the bulk of it is.

Senator SYMMS. So you are competing directly with Canadian timber also?

Mr. STAHL. Yes, sir.

Senator SYMMS. How about the logging systems? Do the Canadians use essentially the same logging operation? Have you seen some of their operations?

Mr. RICHARDS. Certainly. We viewed logging operations at several locations in interior British Columbia. The equipment is virtually identical. They use the same equipment that we do. They claim that their logging conditions are more difficult. Most of the sites we visit are flat and easy to log. If they want to see difficult conditions, we will take them to the Targee National Forest out in southeast Idaho. We can only log there about 4 months out of the year, which is very expensive when you have to put in a log deck for a 12-month operation in 4 or 5 months.

Senator SYMMS. You stack all of those logs up. So it costs more money.

Mr. RICHARDS. Right, and they don't have in most of the areas we visited in interior British Columbia where the bulk of the lumber is coming from, they don't have those conditions.

Senator SYMMS. How much of an increase in the price do we need to restore profitability to the U.S. mills?

Mr. RICHARDS. Our judgment, Senator, is that we need $30 a thousand.

Senator SYMMS. How about in your case, Mr. Stahl?

Mr. STAHL. We can't set prices ahead, but I would judge that the way the market has been working and the way the appraisal system works, we are looking in the neighborhood of $30 or $40.

Senator SYMMS. So, in other words, if we did countervail Canadian timber to the subsidized cost of $46 a thousand, the playing field would be very fair and very equitable?

Mr. RICHARDS. We would have no problem competing with the Canadians.

Senator SYMMS. No, problem. Now what about the Canadian mills? In your opinion, are the Canadian mills operating at a profit? Are they profitable?

Mr. RICHARDS. Absolutely.

Mr. STAHL. I would hope so.

Mr. RICHARDS. I would say absolutely. We know the mills in interior British Columbia are not only profitable, but very profitable.

Senator SYMMS. How many mills do you operate in the Black Hills?

Mr. STAHL. There are approximately 12 major mills and another 12 that are in and out of the business, depending on the market. Right now they are out.

Senator SYMMS. Now we have had 25 percent closure out of our 2,000 mills. We have had more than 25 percent. We are talking about 30 percent closure. You heard Mr. Richards say that.

You have got 12 mills that are closed and 12 that are operating; is that what you are telling me?

Mr. STAHL. That are temporarily closed or operating at very reduced levels at this point in time. They haven't really gone out of business. We can't say they are out of business. They are still there and they are capable of operating.

Senator SYMMS. Are all of your mills captives of the Forest Service monopoly?

Mr. STAHL. Yes, sir. There is private timber and there is some State timber, but 85 percent of the available timber is national forest.

Senator SYMMS. Is the competition pretty vigorous for the timber?

Mr. STAHL. Yes, sir. It can get very vigorous.

Senator SYMMS. That is a fair comparison in our part of the country, isn't it, Tom? Would you say it is very vigorous when you go in to buy timber?

Mr. RICHARDS. Yes, sir.

Senator SYMMS. I mean, in other words, even in spite of all of these problems, the pressure is on you to buy timber so the dependent community can operate and you feel a pressure to go in and give it a best shot bid. Is that correct or incorrect?

Mr. RICHARDS. Oh, absolutely. I would say in Idaho the average producer with the exception, of course, of one or two larger companies that have large amounts of private timber, but the average producer, and our company would be typical, has between 2 and 2½ timber supply ahead of them, where in Canada, of course, they have got these quotas and they can look at a guaranteed 10, 15, or 20 years of timber supply at low price.

Senator SYMMS. How much do you think that competitive bidding the way we do it adds to the price of stumpage?

Mr. STAHL. In the Black Hills if you looked at it from the appraisal point of view, we are getting about, even though it is $21 roughly stumpage, it is starting from a negative appraisal of about $20.

Senator SYMMS. So it is $40.

Mr. STAHL. $40 increases.

Senator SYMMS. How about in the panhandle in Idaho?

Mr. RICHARDS. Well, it is a little different there because we have so many different species, but if we take the fir species that competes with the Canadians, it would be a similar situation to the one that is described in the Black Hills.

Senator SYMMS. What I am implying here is a fair statement that we as American producers in our system of the Government monopoly of the timber supply and the free enterprise wood processing competitors, we do tend to bid our own raw product price up more than it otherwise would. In other words, we are clearly bidding it up in a competitive situation.

I mean a lot of people would come in and say that is fine and the Government ought to get more money for their timber. I mean that is the other side of it, but in talking about competing across the border, I get so frustrated with this personally that I have said out in Idaho some days that I feel like we either need to make an annexation or put a tariff up to simplify the situation because the Canadians have so many different rules than we have that we have a real frustration for our people.

So the lumber price increase, and you say $30, and I guess we have pretty well covered that.

Well, I want to thank both of you for excellent testimony and I think that is helpful information for this committee, but even more importantly, it is helpful information for the Finance Committee because we are going to be addressing this issue.

As one member of the Trade Subcommittee and the Finance Committee, I am going to be very hard pressed and uncooperative with both the Canadians and this administration when it comes to making a free trade zone between the United States and Canada until we resolve the issue of Canadian subsidies of natural resources; primarily timber, but also some of these other products that I think there is a case that can be made on those too. We haven't gone into those in detail today, but I think that we should

So I thank you both very much and appreciate your spending your time and money to be here to make this a successful hearing.

Senator Abdnor is here.

Senator, you may want to make a comment before I call up the next witness. We have had excellent testimony and have gone through the questions that you gave to me for Mr. Stahl, and your name was mentioned in very complimentary form here earlier both by the witness and by me, and I think we have asked all the questions that you wanted asked.

Senator ABDNOR. Well, if we gave you the list, I am sure you have.

Mr. Chairman, I thank you for giving me this opportunity. I wish I could have been here to hear the nice things because I sometimes hear the other things.

I commend you for having this hearing. It is extremely important to South Dakota, and I think you could probably tell that by the testimony from Mr. Stahl.

Senator SYMMS. Mr. Stahl's statement really said the No. 1 problem facing the Black Hills timber industry was Canadian stumpage.

Would you confirm that, Mr. Stahl, that is what you said, that the No. 1 problem was Canadain imports and over 50 percent of the market they have even in the region they supply?

Mr. STAHL. Yes, sir.

Senator ABDNOR. Well, we hope we may have encouraged the Chief Forester who came to South Dakota, and while he didn't see Canada, I think he got a message from a number of our people in the industry who I don't think they held back too much. If they did, they should have heard the people in the lumber mill and they should have heard the people that evening.

Well, I have nothing to add to this, and I understand you still have another witness yet.

Senator SYMMS. We have Mr. Nichols who is here to testify on behalf of the American Furniture Manufacturers Association.

If you have no more questions, we will start with Mr. Nichols, and we appreciate your forbearance and your patience.

Mr. Nichols, if you see me leave the room, I assure you I am going to carefully read your prepared statement.

Senator Abdnor can take the chair here. Can you take the chair?

Senator ABDNOR. I will, but I am going to have to—I don't want to rush Mr. Nichols, but I have got a number of people waiting.

Senator SYMMS. I have a problem that Senator Packwood as chairman of the Finance Committee is scheduling different Senators to come and sit down and go through his proposed tax reform measure, and I hesitate not to be there to protect my flank on that meeting——

[Laughter.]

Senator SYMMS [continuing]. Because we have some great interests in what will come out of the Congress on the tax reform. Why don't you go ahead.

STATEMENT OF CARLTON E. NICHOLS, JR., PRESIDENT, AMERICAN FURNITURE MANUFACTURERS ASSOCIATION

Mr. NICHOLS. Thank you, Mr. Chairman and Senator Abdnor. My name is Carlton E. Nichols, Jr., and I am president of Nichols & Stone Co., of Gardner, MA, and also president of the American Furniture Manufacturers Association for 1986. I am pleased to submit the views of AFMA with regard to an issue of critical importance to our industry, United States-Canadian trade negotiations.

The American Furniture Manufacturers Association is the largest furniture manufacuturing trade association in the United States. By volume, sales by AFMA member companies comprise the vast majority of residential furniture produced in the United States. Also, the AFMA members have home offices or facilities in almost the entire 50 States and provide employment to several hundred thousand persons.

I would like to state the association's strong support for a free trade agreement on furniture products shipped between the United States and Canada and support for the Fair Furniture Trade Act, H.R. 3644 and S. 1801. For years AFMA members have urged the Congress and the administration to take any and every possible action to have furniture tariffs between the United States and Canada put on a more equitable basis.

After all the time and effort our industry has devoted to resolving this continuing issue, we would hope that the United States and Canada would act quickly to effectuate a trade liberalization agreement providing free trade or equal duties, at a minimum, for furniture products between our two countries. If not, as I will discuss, the mechanism included in the Fair Furniture Trade Act will work to provide reciprocal tariff treatment on Canadian furniture entering the United States.

A number of statements have been made by Canadian officials which indicate that the Canadian Government intends to push for

a long-term gradual reduction in Canadian tariffs during the proposed bilateral negotiations.

The United States-Canada furniture trade deficit today stands higher than it has been at any other time in the history of United States-Canadian trade—approximately $250 million in 1984—with a rate of increase in wood furniture of 54 percent in 1985. Given the added effect of the persistently overvalued United States dollar, which is yet to decline relative to the Canadian dollar, AFMA believes that the American furniture industry cannot afford a prolonged phase-in period. With regard to trade policy, we believe that Canada, which has the highest tariff walls of any major industrialized nation, should stop "acting" as if it were an advanced country and promptly start "being" one.

AFMA is extremely concerned with the tariff barriers which have been set by a number of countries with the intent of keeping furniture manufactured in the United States out of their domestic markets. The United States, on the other hand, has maintained low tariffs on furniture. In fact, the record of the United States on domestic tariffs has been outstanding. Duties on wood and upholstered household furniture entering the United States have decreased by 71 and 73 percent, respectively, since 1963, and by 1987 will have decreased 76 and 80 percent, respectively. The record of certain other countries in that regard has not been as commendable.

Because of our common border, similar cultures and government regulations, Canada provides the American furniture manufacturer with perhaps the most egregious example of unfair tariff barriers to the United States products in the world. Nonmetal residential furniture shipped from the United States into Canada faces a 16.5-percent duty. Canadian furniture entering the United States faces duties of 4.7 percent—wood chairs—9.6 percent or 5.5 percent—upholstered—or as low as 3.1 percent for the bulk of furniture products—wood tables, desks, beds, et cetera. Therefore, through duties assessed, Canadian furniture imports are given a clear and substantial advantage over our United States exports to Canada.

The effect of inequitable Canadian duties, coupled with an unfavorable exchange rate on the United States furniture industry has been dramatic. According to the United States Department of Commerce, United States imports of Canadian furniture rose from $149 million in 1980 to $334 million in 1984, almost a 125 percent increase. The $334 million 1984 figure—almost 17 percent of all U.S. furniture imports—represents a growth of 38 percent from the 1983 total of $249 million. But United States furniture exports to Canada remained approximately static in 1984—$93.4 million—down by $13.1 million from 1980.

While the 1985 United States Department of Commerce import-export statistics are not fully available, data on Canadian-United States furniture trade are available and highly disturbing. Canadian wood furniture shipments into America grew $40 million from 1984 to 1985, from $150.2 to $190.9 million. At the same time, United States wood furniture exports to Canada dropped by approximately $13 million, from $46 to $33.6 million. As previously mentioned, these 1985 figures demonstrate an astounding 54 per-

cent increase in Canadian-United States wood trade deficit when compared with 1984.

Going beyond Canada for a moment and using the most recent United States Department of Commerce data available, wood and upholstered furniture imports from 1979 to 1984 increased 284 percent, from $312 million to nearly $1.2 billion. U.S. exports of the same categories from 1979 to 1984 went from $312 to $210 million. Taken together, these trends are forecasting a fundamental restructuring of the U.S. furniture industry, based not on a valid competitive balance, but upon an international marketplace skewed by tariff barriers.

Plant closings and employment figures also illustrate the impact these barriers can have beyond the United States-Canada furniture trade deficit. While the full blame for adverse employment effects and plant closings cannot be laid solely to Canadian imports, they obviously have played a significant role as Canada is America's second largest furniture importing country.

According to the most recent Department of Commerce statistics, the U.S. wood furniture industry lost 375 manufacturing facilities over the 1977 through 1982 period, while the U.S. upholstered furniture industry lost 246 manufacturing facilities over the same period, a total loss of 261 facilities. As a direct consequence, according to the U.S. Department of Labor's data, U.S. wood furniture manufacturing employment declined from 147,000 in 1979 to 132,400 in 1985, and upholstered furniture manufacturing employment dropped from 101,700 in 1979 to 94,500 in 1985.

These numbers reflect the extent to which the Canadian-United States tariff and equity forces competition to be on a most unfair and uneven basis. Competition is an essential element of our business. This industry is not, nor has it ever been dominated by a few large companies. Instead, it is an extraordinarily competitive industry comprised of approximately 4,500 companies, over two-thirds of which employ fewer than 20 workers. Profit margins are slim. Since 1978 after-tax profits have averaged approximately 3 to 4 percent. Estimates are that the wood and upholstered furniture industry had approximately $11.2 billion in shipments during 1985.

In 1984, the International Trade Commission completed a study entitled "Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry." The study was comprehensive and well documented, and the published report provides an overview of the industry's current domestic and international trade position.

Senator, if I may, I would like to interject at this point, and I would like to submit for the record a copy of that competitive assessment I have just mentioned.

Senator ABDNOR [presiding]. Fine. Without objection, it will be made a part of the record.

Mr. NICHOLS. Thank you. We were pleased to have many of our members contribute to that study and to have the Commission in High Point, NC, for field hearings and tours of furniture facilities.

The ITC report pointed out that historically the United States and Canada have been major furniture trading partners. In fact, while Canada is among the leading exporters of furniture into the

United States, it is also the second largest importer of United States furniture.

The Canadian furniture industry is very similar to the United States industry in structure, wages, level of technology and access to capital. Much like the United States, worker health and safety and pollution control are deemed essential in Canada and thus regulated by Government. The ITC study of our industry documented the similarities between the United States and Canadian industries.

U.S. furniture manufacturers have enjoyed no special protection. Canadian manufacturers, on the other hand, have been shielded from United States exports by a high-duty rate, as well as a favorable exchange rate. Further, many Canadian manufacturers have the advantage of actually being closer to the major United States population centers than many major United States manufacturers.

In view of the similarities between our countries and the extent of furniture trade between the United States and Canada, we view the current duty differential as unnecessary and disruptive. Canadian furniture in many cases offers serious competition to United States manufacturers. The same is true of United States furniture in Canada. Given the sound basis for that competition, neither country's furniture industry should be threatened by a removal of all duties or their equalization. Further, it is obvious that consumers in both countries would be well served by a reduction in duties and resulting reduction in furniture prices.

The AFMA believes the time has come to allow United States furniture manufacturers to compete with Canadian manufacturers on the same basis our domestic manufacturers compete with each other. The Congress in passing trade negotiating authority for the United States evidently agreed with this direction for our international trade policy. To date, however, there have been no concrete results.

H.R. 3644 and S. 1801 would promote more equitable competition between the United States and Canada on furniture products by moving to the end of tariff disparity. The legislation would authorize free trade negotiations on furniture products between the United States and Canada. If a free trade agreement were not achieved, United States tariffs on furniture products would be gradually increased until they were at a level equal to the Canadian tariff set for American furniture products.

At no time would H.R. 3644 and S. 1801 cause U.S. tariffs to rise above the Canadian tariffs. The goal of the Fair Furniture Trade Act is free trade on furniture products with Canada, a step that would benefit the manufacturers, retailers, and consumers in both countries.

The furniture industry in recent years has become more international in scope reflected both by inroads made by imported furniture into markets traditionally dominated by the U.S. furniture industry and by U.S. companies expanding their horizons overseas in search of new markets. The impact of trade related policies cannot be overstated.

The behavior of the U.S. Government in the area of furniture trade has been exemplary. The United States has consistently lowered its effective tariffs on furniture over the past two decades

through outright reductions, through the extension of favorable tariff treatment to certain countries and through its provision of duty free status to certain developing countries, even where those countries have become major international competitors in furniture and other trade.

However well meaning these efforts are, they carry with them one fatal flaw. As practiced over the past two decades with respect to the American furniture industry, the free trade and lowered tariff of our Government's trade policy has been too one sided.

U.S. backed agreements and congressionally approved programs have hampered the ability of the U.S. furniture industry to compete in its own marketplace. They have also led to a partial restructuring of this industry not based upon the free flow of trade in international commerce. And all of this is occurring during a period predicted to be the golden age of U.S. furniture manufacturing.

AFMA strongly supports the Fair Furniture Trade Act as a means of ensuring that our exports are accorded equitable treatment with regard to the Canadian market. Thank you.

[The prepared statement of Mr. Nichols, together with the report referred to, follows:]

PREPARED STATEMENT OF CARLTON E. NICHOLS, JR.

Mr. Chairman, Members of the Subcommittee, my name is Carlton E. Nichols, Jr. and I am President of Nichols and Stone Company of Gardner, Massachusetts, and also President of the American Furniture Manufacturers Association (AFMA) for 1986. I am pleased to submit the views of AFMA with regard to an issue of critical importance to our industry -- U.S.-Canada Trade Negotiations.

The American Furniture Manufacturers Association is the largest furniture manufacturing trade association in the United States. By volume, sales by AFMA member companies comprise the vast majority of residential furniture produced in the United States. Also, the AFMA members have home offices or facilities in almost the entire fifty states and provide employment to several hundred thousand persons.

I would like to state the association's strong support for a free-trade agreement on furniture products shipped between the United States and Canada and support for the Fair Furniture Trade Act, H.R. 3644 and S. 1801. For years AFMA members have urged the Congress and the Administration to take any and every possible action to have furniture tariffs between the United States and Canada put on a more equitable basis. After all the time and effort our industry has devoted to resolving this continuing issue, we would hope that the U.S. and Canada will act quickly to effectuate a trade liberalization agreement providing free trade or

equal duties, at a minimum, for furniture products between our two countries. If not, as discussed below, the mechanism included in the Fair Furniture Trade Act will work to provide reciprocal tariff treatment on Canadian furniture entering the U.S.

A number of statements have been made by Canadian officials which indicate that the Canadian Government intends to push for a long-term, gradual reduction in Canadian tariffs during the proposed bilateral negotiations.

The U.S.-Canada furniture trade deficit today stands higher than it has at any other time in the history of U.S.-Canadian trade (approximately $250 million in 1984), with a rate of increase in wood furniture of 54% in 1985. Given the added effect of the persistently overvalued U.S. dollar, which has yet to decline relative to the Canadian dollar, AFMA believes that the American furniture industry cannot afford a prolonged phase-in period. With regard to trade policy, we believe that Canada, which has the highest tariff walls of any major industrialized nation, should stop "acting" as if it were an advanced country and promptly start "being" one.

AFMA is extremely concerned with tariff barriers which have been set by a number of countries with the intent of keeping furniture manufactured in the U.S. out of their

domestic markets. The United States, on the other hand, has maintained low tariffs on furniture. In fact, the record of the U.S. on domestic tariffs has been outstanding: duties on wood and upholstered household furniture entering the U.S. have decreased by 71% and 73% respectively, since 1963, and by 1987 will have decreased 76% and 80%, respectively (under the Multilateral Trade Negotiations). The record of certain other countries in that regard has not been as commendable.

Because of our common border, similar cultures and government regulations, Canada provides the American furniture manufacturer with perhaps the most egregious example of unfair tariff barriers to U.S. products in the world. Non-metal, residential furniture shipped from the United States into Canada faces a 16.3% duty. Canadian furniture entering the United States faces duties of 4.7% (wood chairs), 9.6% or 5.5% (upholstered), or as low as 3.1% for the bulk of furniture products (wood tables, desks, beds, etc.). Therefore, through duties assessed, Canadian furniture imports are given a clear and substantial advantage over U.S. exports to Canada.

The effect of inequitable Canadian duties, coupled with an unfavorable exchange rate, on the U.S. furniture industry has been dramatic. According to the U.S. Department of Commerce, U.S. imports of Canadian furniture rose from $149

million in 1980, to $334 million in 1984 -- almost a 125% increase. The $334 million 1984 figure - almost 17% of all U.S. furniture imports -- represents a growth of 38% from the 1983 total of $249 million. But U.S. furniture exports to Canada remained approximately static in 1984 ($93.4 million) -- down by $13.1 million from 1980.

While 1985 U.S. Department of Commerce import/export statistics are not fully available, data on the Canadian/U.S. wood furniture trade is available and highly disturbing. Canadian wood furniture shipments into America grew $40 million from 1984-85, from $150.2 million to $190.9 million. At the same time, U.S. wood furniture exports to Canada dropped by approximately $13 million, from $46 million to $33.6 million. As previously mentioned, these 1985 figures demonstrate an astounding 54% increase in the Canadian/U.S. wood furniture trade deficit when compared with 1984.

Going beyond Canada, for a moment, and using the most recent U.S. Department of Commerce data available, wood and upholstered furniture imports from 1979 to 1984 increased 284% from $312 million to $1,198 million. U.S. exports of the same categories from 1979 to 1984 went from $312 million to $210 million. Taken together, these trends are forecasting a fundamental restructuring of the U.S. furniture industry, based not on a valid competitive

balance, but upon an international marketplace skewed by tariff barriers.

Plant closings and employment figures also illustrate the impact these barriers can have, beyond the U. S.-Canada furniture trade deficit. While the full blame for adverse employment effects and plant closings cannot be laid solely to Canadian imports, they obviously have played a significant role, as Canada is America's second largest furniture importing country. According to the most recent U.S. Department of Commerce statistics, the U.S. wood furniture industry lost 375 manufacturing facilities over the 1977-1982 period, while the U.S. upholstered furniture industry lost 246 manufacturing facilities over the same period -- a total loss of 621 facilities. As a direct consequence, according to the U. S. Department of Labor's data, U.S. wood furniture manufacturing employment declined from 147,000 in 1979 to 132,400 in 1985, and upholstered furniture manufacturing employment dropped from 101,700 in 1979 to 94,500 in 1985.

These numbers reflect the extent to which the Canadian-U.S. tariff inequity forces competition to be on a most unfair and uneven basis. Competition is an essential element of our business. This industry is not, nor has it ever been, dominated by a few large companies. Instead, it is an extraordinarily competitive industry comprised of

approximately 4500 companies, over two-thirds of which employ fewer than 20 workers. Profit margins are slim (since 1978, after-tax profits have averaged approximately 3-4%). Estimates are that the wood and upholstered furniture industry had approximately $11.2 billion in shipments during 1985.

In 1984, the International Trade Commission (ITC) completed a study, entitled, Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry. The study was comprehensive and well-documented, and the published report provides an overview of the industry's current domestic and international trade position. We were pleased to have many of our members contribute to that study and to have the Commission in High Point, N. C. for field hearings and tours of furniture facilities.

The ITC report pointed out that, historically, the U.S. and Canada have been major furniture trading partners. In fact, while Canada is among the leading exporters of furniture into the U.S., it is also the second largest importer of U.S. furniture.

The Canadian furniture industry is very similar to the U.S. industry in structure, wages, level of technology and access to capital. Much like the U.S., worker health and safety and pollution control are deemed essential in Canada,

and thus regulated by government. The ITC study of our industry documented the similarities between the U.S. and Canadian industries in the description of "Major Foreign Competitors," (Competitive Assessment of the Wood and Upholstered Household Furniture Industry, U.S. International Trade Commission, Publication 1543, pp. 21-22).

U.S. furniture manufacturers have enjoyed no special protection. Canadian manufacturers, on the other hand, have been shielded from U.S. exports by a high duty rate as well as a favorable exchange rate (Competitive Assessment, U.S. ITC, Page 8). Further, many Canadian manufacturers have the advantage of actually being closer to the major U.S. population centers than many major U.S. manufacturers (Competitive Assessment, U.S. ITC, Page 21).

In view of the similarities between our countries and the extent of furniture trade between the U.S. and Canada we view the current duty differential as unnecessary and disruptive. Canadian furniture in many cases offers serious competition to U.S. manufacturers. The same is true of U.S. furniture in Canada. Given the sound basis for that competition, neither country's furniture industry should be threatened by a removal of all duties or their equalization. Further, it is obvious that consumers in both countries would be well served by a reduction in duties and resulting reduction in furniture prices.

The AFMA believes the time has come to allow U.S. furniture manufacturers to compete with Canadian manufacturers on the same basis our domestic manufacturers compete with each other. The Congress, in passing trade negotiating authority for the U.S., evidently agreed with this direction for our international trade policy. To date, however, there have been no concrete results.

H.R. 3644/S. 1801 would promote more equitable competition between the U.S. and Canada on furniture products by moving to end the tariff disparity. The legislation would authorize free trade negotiations on furniture products between the U.S. and Canada. If a free trade agreement were not achieved, U.S. tariffs on furniture products would be gradually increased until they were at a level equal to the Canadian tariff set for American furniture products. At no time would H.R. 3644/S.1801 cause U.S. tariffs to rise above the Canadian tariffs. The goal of the Fair Furniture Trade Act is free trade on furniture products with Canada, a step that would benefit manufacturers, retailers, and consumers in both countries.

Conclusion

The furniture industry, in recent years, has become more international in scope. Reflected both by inroads made

by imported furniture into markets traditionally dominated by the U.S. furniture industry and by U.S. companies expanding their horizons overseas in search of new markets, the impact of trade-related policies cannot be overstated.

The behavior of the U.S. Government in the area of furniture trade has been exemplary: the U.S. has consistently lowered its effective tariffs on furniture over the past two decades through outright reductions, through the extension of very favorable tariff treatment to certain countries, and through its provision of duty-free status to certain developing countries -- even where those countries have become major international competitors in furniture (and other) trade.

However well-meaning these efforts are, they carry with them one fatal flaw. As practiced over the past two decades, with respect to the American furniture industry, the "free trade" and "lowered tariff" thrust of our government's trade policy has been too one-sided. U.S. backed agreements and Congressionally approved programs have hampered the ability of the U.S. furniture industry to compete in its own marketplace. They have also led to a partial restructuring of this industry <u>not</u> based upon the free flow of trade in international commerce. And all of this is occurring during a period predicted to be the "Golden Age of U.S. Furniture Manufacturing."

AFMA strongly supports the Fair Furniture Trade Act as a means of ensuring that our exports are accorded equitable treatment with regard to the Canadian market.

COMPETITIVE ASSESSMENT OF THE U.S. WOOD AND UPHOLSTERED HOUSEHOLD FURNITURE INDUSTRY

Report to Subcommittee on Trade,
Committee on Ways and Means,
U.S. House of Representatives
Investigation No. 332-170,
Under Section 332(b) of the
Tariff Act of 1930, as
Amended

USITC PUBLICATION 1543

JUNE 1984

United States International Trade Commission / Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

COMMISSIONERS

Alfred E. Eckes, Chairman

Paula Stern

Veronica A. Haggart

Seeley G. Lodwick

Susan W. Liebeler

David B. Rohr

Kenneth R. Mason, Secretary to the Commission

This report was prepared principally by

Rhett Leverett and Ruben Moller

General Manufactures Division

Office of Industries
Norris A. Lynch, Director

Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436

PREFACE

On October 20, 1983, at the request of the Subcommittee on Trade, House Committee on Ways and Means 1/ and in accordance with section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), the United States International Trade Commission instituted investigation No. 332-170, a competitive assessment of the U.S. wood and upholstered household furniture industry. The Commission was asked to assess the factors affecting the present international competitive position of U.S. wood and upholstered household furniture producers, compare structural characteristics of the U.S. industry and principal foreign competitors, and describe U.S. and foreign government policies and regulations and their influence on the wood and upholstered household furniture industry.

Notice of the investigation was given by posting copies of the notice of investigation at the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publication of the notice in the Federal Register (48 F.R. 50631, Nov. 2, 1983). 2/

A public hearing in connection with this investigation was held in High Point, N.C., on April 3, 1984. Testimony was received by the Commission from members of Congress and from U.S. producers and importers of household furniture. 3/ Notice of the hearing was given by publication of the notice in the Federal Register (48 F.R. 10589, March 21, 1984). 4/

In the course of this investigation, the Commission collected data and information from questionnaires sent to producers, importers, and purchasers of household furniture. In addition, information was gathered from various public and private sources, from the public hearing, from questionnaire responses prepared by overseas posts of the U.S. Department of State, and from interviews with industry executives representing producers, importers, and purchasers of household furniture, as well as from public data gathered in other Commission studies.

1/ The request from the Ways and Means Committee is reproduced in app. A.

2/ A copy of the notice of the Commission's investigation and hearing is reproduced in app. B.

3/ Lists of witnesses who testified at the hearing and of persons who submitted written statements are shown in app. C.

4/ A copy of the supplementary notice of the Commission's hearing is reproduced in app. D.

62-651 O - 86 - 3

C O N T E N T S

	Page
Preface	i
Executive summary	ix
Product description and uses	1
Wood household furniture	1
Raw material	1
Production process	2
Upholstered household furniture	2
Raw material	2
Production process	3
Tariff treatment:	
U.S. customs treatment	3
Wood household furniture and parts	4
Upholstered household furniture and parts	4
Customs Treatment of Major U.S. Competitors	6
Trade Regulations:	
The United States	8
Major U.S. trading partners:	
Canada	8
Denmark	8
Taiwan	8
Yugoslavia	9
Other	9
The U.S. Industry and major foreign competitors:	
United States	9
Wood household furniture	10
Upholstered household furniture	10
Factors of production:	
Raw materials	11
Capital	11
Capital expenditures	12
Employment, hours worked, and wages	15
Level of technology	16
Transportation	17
Government policies affecting industry	18
Major foreign competitors:	
Taiwan:	
Industry profile	19
Raw materials	19
Capital	20
Labor	20
Technology level	20
Other	21
Canada:	
Industry profile	21
Raw materials	22
Capital	22
Labor	22
Technology level	22
Other	22
Denmark:	
Industry profile	22
Raw materials	23

CONTENTS

Page

The U.S. industry and major foreign competitors--Continued
Major foreign competitors--Continued
Denmark--Continued
Capital---- 23
Labor---- 23
Technology level---- 23
Other---- 23
Yugoslavia:
Industry profile---- 23
Raw materials---- 24
Capital---- 24
Labor---- 24
Technology level---- 24
The U.S. market:
Domestic market profile---- 25
U.S. consumption---- 25
Wood household furniture---- 27
Upholstered household furniture---- 29
Production, capacity, and capacity utilization:
Wood household furniture---- 31
Upholstered household furniture---- 32
U.S. producers' shipment---- 34
Wood household furniture---- 34
Upholstered household furniture---- 34
U.S. producers' shipments by respondents to the Commission's questionnaire:
Wood household furniture---- 34
Upholstered household furniture---- 35
Factors affecting producers' shipments---- 36
Inventories---- 37
U.S. exports---- 38
Wood household furniture---- 38
Upholstered household furniture---- 39
Exports of wood and upholstered household furniture by selected U.S. producers---- 40
U.S. imports---- 42
Imports from Taiwan---- 42
Imports from Canada---- 44
Imports from Denmark---- 44
Imports from Yugoslavia---- 45
Imports under the Generalized Systems of Preferences---- 45
Imports under item 807.00---- 46
Wood household furniture and parts---- 47
Imports of wood household furniture and parts by respondents to the Commission's questionnaire---- 47
Imports by importers---- 48
Imports by U.S. producers---- 50
Upholstered household furniture and parts---- 50
Imports of upholstered household furniture and parts by respondents to the Commission's questionnaire---- 50
Imports by importers---- 51
Imports by U.S. producers---- 52

CONTENTS

	Page
Conditions of competition	53
Price	53
Product quality	55
Marketing techniques	57
Technology level and cost of raw materials	58
Government involvement	59
Competitive assessment by U.S. producers and importers	60
Response by the U.S. industry	62
Appendix A. Copy of letter to Chairman Alfred E. Eckes from Chairman Sam Gibbons, Subcommittee on Trade, House Ways and Means Committee, requesting an investigation	63
Appendix B. Notice of institution of investigation No. 332-170 and preliminary notice of hearing	67
Appendix C. Witnesses at the hearing and persons submitting written statements	69
Appendix D. Supplementary notice of hearing	73
Appendix E. Explanation of the rates of duty Applicable to wood and upholstered household furniture and selected Portions of the Tariff Schedules of the United States Annotated (1984)	75
Appendix F. Assessment by U.S. producers and importers of the competitive position of selected U.S.-made wood household furniture versus that of foreign-made products	79

Figures

1. Wood and upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83	26
2. Wood household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83	28
3. Upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83	30

Tables

1. Wood and upholstered household furniture and parts thereof: U.S. rates of duty, present, and negotiated, by TSUS items	5
2. Household furniture: Present and negotiated rates of duty in selected countries	7
3. Total net sales and income before taxes for selected U.S. producers of wood and upholstered household furniture, 1979-83	12
4. Capital expenditures of wood household furniture manufacturers, 1979-83	13
5. Capital expenditures of upholstered household furniture manufacturers, 1979-83	14

CONTENTS

Page

6. Research and development expenses for selected wood and upholstered furniture manufacturers, 1979-83---------- 15
7. Average number of all employees and production and related workers in the wood and upholstered household furniture industries of reporting establishments, 1979-83---------- 16
8. Wood and upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83---------- 25
9. Wood household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83---------- 27
10. Upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83---------- 29
11. U.S. production of wood household furniture by selected U.S. producers, by types, 1979-83---------- 31
12. Wood household furniture: Capacity utilization rates by selected producers, by types, as of Dec. 1 of 1979-83---------- 32
13. U.S. production of upholstered household furniture by selected U.S. producers, by types, 1979-83---------- 33
14. Upholstered household furniture: Capacity utilization rates by selected producers, by types, as of Dec. 1 of 1979-83---------- 33
15. Wood and upholstered household furniture: U.S. producers' shipments, by types, 1979-83---------- 34
16. Wood household furniture: Certain U.S. producers' shipments, by types, 1979-83---------- 35
17. Upholstered household furniture: Certain U.S. producers shipments, by types, 1979-83---------- 36
18. Household furniture: Inventories by selected wood and upholstered producers, by types, as of Dec. 1 of 1979-83---------- 37
19. Wood and upholstered household furniture, and parts: U.S. exports of domestic merchandise, by principal markets, 1979-83---------- 38
20. Wood household furniture, and parts: U.S. exports of domestic merchandise, by principal markets, 1979-83---------- 39
21. Upholstered household furniture: U.S. exports of domestic merchandise, by principal markets, 1979-83---------- 39
22. Share of U.S. exports of wood and upholstered household furniture by selected U.S. producers, by principal types, 1979-83---------- 41
23. Wood and upholstered household furniture, and parts: U.S. imports for consumption, by principal sources, 1979-83---------- 42
24. Wood household furniture, and parts: U.S. imports for consumption, by principal sources, 1979-83---------- 43
25. Upholstered household furniture: U.S. imports for consumption, by principal sources, 1979-83---------- 44
26. Wood and upholstered household furniture, and parts: U.S. imports under the GSP, total U.S. imports, and ratio of U.S. imports under the GSP to total U.S. imports, 1979-83---------- 46
27. Wood household furniture and parts: U.S. imports by selected U.S. importers and by U.S. producers, 1979-83---------- 48
28. Wood household furniture: U.S. imports by U.S. importers, by types, 1979-83---------- 49

CONTENTS

Page

29. Parts for wood household furniture: U.S. imports by U.S. producers, by types, 1979-83---------- 50
30. Upholstered household furniture and parts: U.S. imports, by importers and by producers 1979-83---------- 51
31. Upholstered household furniture: U.S. imports by U.S. importers, by types, 1979-83---------- 52
32. Average exchange rates for principal foreign competition in terms of the foreign currency per U.S. dollar, 1979-83---------- 55
33. Assessment by U.S. producers and importers of the overall competitive position of U.S.-made wood household furniture and parts versus foreign-made products in the U.S. market by types, 1979-83---- 60
34. Assessment by U.S. producers and importers of the overall competitive position of U.S.-made upholstered household furniture and parts versus foreign-made products in the U.S. market, by types, 1979-83---------- 61
G-1. Dining tables: Frequency of responses by U.S. producers and importers assessing the competitive position of U.S.-made dining tables versus foreign-made products during 1979-83---------- 80
G-2. Dining chairs: Frequency of responses by U.S. producers and importers assessing the competitive position of U.S.-made dining chairs versus foreign-made products during 1979-83---------- 81
G-3. Other dining furniture: Frequency of responses by U.S. producers and importers assessing the competitive position of U.S.-made other dining furniture versus foreign-made products during 1979-83---------- 82
G-4. Other chairs: Frequency of responses by U.S. producers and importers assessing the competitive position of U.S.-made other chairs versus foreign-made products during 1979-83---------- 83
G-5. Occasional tables: Frequency of responses by U.S. producers and importers of the competitive position of U.S.-made occasional tables versus foreign-made products during 1979-83---------- 84
G-6. Bedroom furniture: Frequency of responses by U.S. producers and importers assessing the competitive position of U.S.-made bedroom furniture versus foreign-made products during 1979-83---------- 85

EXECUTIVE SUMMARY

The health of the labor-intensive U.S. wood and upholstered household furniture industry is closely tied to the general conditions of the domestic economy. Because of the unstable economy during 1979-83 and such concomitant factors as high interest rates, lower levels of disposable income, and declining housing starts that characterized the economic downturn in 1981 and 1982, the domestic industry experienced decreased sales, particularly in 1982. During the same period, foreign producers, particularly manufacturers in Taiwan, but also those in Canada, Denmark and Yugoslavia, significantly increased their sales in the United States.

The U.S. industry has expressed concern in recent years that its competitive position in domestic as well as foreign markets has been eroding. Industry concerns are reflected in the request of the Subcommittee on Trade of the House Ways and Means Committee that the International Trade Commission examine the factors of competition in the furniture industry.

Highlights of the Commission's investigation are as follows:

1. Structure of the domestic and foreign industry.

   o The U.S. wood and upholstered household furniture industry is composed of many small and mid-sized firms, but a few large producers represent a major share of U.S. production.

Approximately 60 percent of the 2,100 firms producing wood household furniture have 20 or fewer employers. The top 40 percent of the firms account for an estimated 80 percent of total U.S. production. The top 10-15 companies, located primarily in the Southeast, tend to dominate the industry and are the best known nationally. Together, they account for approximately 30 percent of wood household furniture production. These large companies tend to supply much of the mass merchandising market, but no company supplies more than 4 percent of the overall wood household furniture market. 1/ Most of the larger firms produce both wood and upholstered household furniture. Approximately 120,000 persons were employed by all firms that produce wood household furniture, with an estimated annual payroll of $1.6 billion in 1983. The industry reported significant capital investments in the period 1979-83, with the bulk of the expenditures for new machinery, equipment, and fixtures.

The upholstered furniture industry is geographically less concentrated than that producing wood household furniture. Over 50 percent of the 1,200 companies that manufacture upholstered household furniture have fewer than 20 employees; however, the top 30 percent of the firms account for the bulk of upholstered furniture production. The top 10 manufacturers account for approximately 20 percent of the upholstered household furniture shipments. Nearly 81,000 workers were employed by this industry with an estimated annual payroll of $950 million in 1983. Most capital investments during 1979-83 were for new machinery, equipment and fixtures.

1/ Based on information received during the hearing on Apr. 3, 1984, at High Point, N.C.

The wood and upholstered household furniture industry appears to have operated at profitable levels during 1979-83, with ratios of before tax profits to total sales in the 7 percent to 9 percent range. Less than 5 percent of producers reported overall losses during the period.

- o A relatively small number of firms in the principal foreign supplying nations provided the bulk of U.S. imports.

In each of the major sources of U.S. imports of wood and upholstered household furniture, only a few companies tend to supply the bulk of exports; these are usually the largest and most technologically advanced companies. In Taiwan, an estimated 8 to 10 companies out of 50 to 60 manufacturers of wood furniture and parts supply virtually all exports to the United States. Very little upholstered household furniture is imported from Taiwan, as its producing companies tend to specialize in wood products that can be shipped in a partly assembled or unassembled manner (known as knocked-down or KD). In Canada, 20 to 30 companies account for the bulk of Canadian shipments of residential or household furniture to the United States. These companies represent only a fraction of the approximately 900 companies that produced household furniture in 1983. The bulk of Canadian furniture is produced in the Eastern provinces of Ontario or Quebec; thus, many of the Canadian producers are closer to the major U.S. population centers in the Northeast than many domestic manufacturers. The Danish furniture industry is small and extremely export oriented with the bulk of the companies having fewer than 50 employees each. Most furniture exported from Denmark is of high quality and is in the middle to upper middle price ranges. Less than one fourth of the Yugoslavian furniture manufacturers export to the United States, with a few large firms accounting for the bulk of these exports. There are several plants that manufacture primarily for export to the United States with most of these exports consisting of Early American chairs or rockers, although all types of wood furniture are exported to the United States.

2. The U.S. market.

- o The value of U.S. consumption of wood and upholstered household furniture was closely tied to the U.S. economy in 1979-83.

During 1979-83, the value of apparent U.S. consumption of wood and upholstered household furniture rose moderately from $8.1 billion in 1979 to $9.2 billion in 1981, fell to $8.4 billion in 1982; then rose in 1983 to $9.8 billion as the economy rebounded. Overall, the value of U.S. consumption of wood and upholstered household furniture grew by 20 percent during the period. However, available data indicate that in terms of quantity, consumption was static at best during the 5-year period.

- o U.S. producers' shipments generally reflected U.S. economic conditions during 1979-83.

Reflecting the general economic conditions in the United States during 1979-83, the value of U.S. producers' shipments of wood household furniture increased by 8.6 percent, rising from $4.7 billion in 1979 to $5.2 billion in 1981; it fell to $4.6 billion in 1982; then increased to $5.3 billion in

1983. U.S. producers' shipments of upholstered household furniture also grew irregularly from $3.2 billion in 1979 to $3.8 billion in 1983, or by 19 percent. Collectively, producers' shipments of wood and upholstered household furniture increased by 14 percent during the period from $8.0 billion to $9.1 billion (although considering inflationary pressures, U.S. production generally remained flat). The weak performance of this industry during the latter part of 1981 and 1982 was due primarily to the recession, the decrease in disposable income, the tightening of credit, high interest rates, the lowering of inventories by retailers, and the growing volume of imports.

- o U.S. exports of wood and upholstered household furniture have been small and have accounted for a limited portion of U.S. producers' shipments.

The value of U.S. exports of wood and upholstered household furniture averaged about 1.4 percent of total U.S. producers' shipments during 1979-83. After increasing by 52 percent from $116 million in 1979 to $177 million in 1981, exports declined by 29 percent to $125 million in 1983. About 80 percent of such exports consisted of wood household furniture. Canada and Saudi Arabia were the largest markets and collectively accounted for about 60 percent of total exports because of the proximity of the former and the preference for western consumer goods by the latter.

- o U.S. imports increased markedly during 1979-83.

U.S. imports of wood and upholstered household furniture increased by 154 percent during 1979-83, rising from a value of $312 million to $795 million. U.S. imports of wood household furniture, primarily dining tables and chairs, and chairs other than dining chairs, accounted for close to 99 percent of total U.S. imports of the furniture items discussed herein. Taiwan at 26 percent, Denmark at 12 percent, Canada at 12 percent, and Yugoslavia at 11 percent collectively accounted for about 60 percent of total U.S. imports of wood household furniture in 1983. U.S. imports of wood and upholstered household furniture entered under the provision of the Generalized System of Preferences (GSP) accounted for an important but declining share of total imports of these products (73 percent in 1979 and 31 percent in 1983). During the period, Taiwan and Yugoslavia accounted for the bulk of such imports. Taiwan lost GSP status for furniture of wood other than chairs in 1980, and Yugoslavia lost GSP eligibility for nonfolding chairs of teak in 1983. The loss of GSP status has had no apparent overall impact on the level of imports from these two countries.

- o U.S. firms supply a predominant but declining share of wood and upholstered household furniture in the domestic market.

Based on the ratio of imports to consumption for wood and upholstered household furniture combined, in terms of value, imports accounted for nearly 4 percent of consumption in 1979 and for more than 8 percent in 1983. For wood household furniture, imports accounted for just over 6 percent of consumption in 1979 and increased to over 13 percent in 1983. Greater foreign penetration of wood household furniture was made possible by a number of factors including the increased popularity of KD furniture lower labor costs

abroad successful adaptation of popular U.S. styles by foreign manufacturers, and perfection of finishing techniques, particularly by manufacturers in Taiwan. However, U.S. firms supplied virtually all (more than 99 percent) of domestic upholstered household furniture consumption, because U.S. producing facilities are, for the most part, closer to major markets, while foreign producers generally must ship this relatively bulky and more fragile furniture over much greater distances at relatively high transportation costs.

3. Factors of Competition in the United States.

o Lower price with an acceptable level of quality appears to be the principal factor in the success of imports in the domestic market.

Imports of foreign-produced wood and upholstered household furniture, especially that from the Far East, are generally priced lower than comparable domestically-made items. The Far Eastern countries, particularly Taiwan, have a competitive advantage because of their much lower costs of labor; in some cases, the labor advantage reportedly enables importers to sell their furniture as much as 20 to 30 percent less than comparable domestically-produced items even after incurring higher transportation costs. Yugoslav labor is also less costly than that in the United States. Imports from Canada generally have had a price advantage in recent years because of the exchange rate differential, which also benefits Danish and other foreign furniture manufacturers.

o Foreign producers have upgraded their quality to a significant degree in recent years, and U.S. producers' competitive advantage in this area has lessened.

The quality of wood and upholstered household furniture plays an important role in the selection of household furniture items. For many years, imports of such furniture, by and large, were perceived by American consumers as having a substandard level of quality. In the past 3 to 5 years, however, most foreign manufacturers have significantly improved their quality levels, particularly in the area of finer finishes. Consequently, most importers offer styles such as Early American, Eighteenth Century, and Contemporary that compete well in the U.S. market. Although quality levels still vary, especially for furniture from Taiwan and Yugoslavia, U.S. manufacturers no longer have a significant competitive advantage in this area. However, some U.S. manufacturers do enjoy a small competitive advantage through brand name identification and the perception of quality that these names represent to consumers.

o Foreign manufacturers have perfected techniques for KD shipment of wood furniture and significantly reduced their transportation costs.

Many foreign producers, especially those in Taiwan and other Far Eastern countries, have perfected techniques of shipping many types of wood furniture such as china cabinets, buffets, and servers in an unassembled or partly assembled manner (KD). Previously, most of this furniture was shipped only as finished pieces. As a result of these compacted shipments, these companies

have reduced their shipping costs for wood furniture from the Far East to regional assembly plants in the United States to a reported 4 percent of the retail selling price. These reductions in transportation costs to foreign manufacturers have lessened the advantage of U.S. producers in this regard.

- o U.S. producers generally have held the advantage vis-a-vis foreign firms concerning the channels of distribution, responsiveness to orders, and dealer-supplier relationships.

The cost of packaging and transportation for wood and upholstered household furniture items, particularly finished products, can be quite high. Because many U.S. producers maintain their own trucks, they have been able to maintain some edge in the area of distribution. The whole concept of inventories has shifted in the furniture industry in the last 3 years, with manufacturers being forced to carry the bulk of inventories and reduce turn-around time on orders. Generally, foreign manufacturers have a lead time of several months, which places them at a relative disadvantage. Additionally, because most foreign companies are somewhat new in the U.S. market, they have not had a long relationship with U.S. retailers, unlike many domestic producers, who have acquired a certain amount of loyalty from the retailers.

- o Foreign producers have improved their marketing practices in the United States, often concentrating on fewer styles which have greater potential for sales.

Virtually all importers now maintain showroom space, particularly in the High Point, N.C. area, to present their products to U.S. furniture retailers during the semi-annual shows. Reportedly, several companies in Taiwan have a relatively limited number of pieces and suites to sell, preferring to concentrate more on items they project will be successful sellers, offering them at attractive prices and reducing production costs through economies of scale.

- o The level of technology used in household furniture manufacturing plants is roughly equivalent worldwide, with no country having a clear competitive advantage.

While none of the major wood and upholstered household furniture producers in the world use robots, computers, or computer assisted production runs to a large extent, virtually all companies use modern woodworking equipment to varying degrees. The most advanced woodworking machinery is produced in Germany, Japan, and Italy and is available to furniture manufacturers worldwide. Foreign companies as well as U.S. producers have access to the same equipment.

- o Government regulations appear to favor foreign manufacturers, particularly those in the Far East who are export-oriented.

Policies of foreign governments, particularly those in the Far East, including Taiwan, reportedly give financial and special tax incentives to furniture and other companies which are important employers and are export oriented. Also, furniture companies in these countries are burdened to a lesser extent by environmental regulations and health and social benefits than are the industries in most western industrialized countries.

1

PRODUCT DESCRIPTION AND USES

Wood and upholstered household furniture and parts include movable articles which are designed to be placed on the floor or ground and which are used primarily to equip dwellings or residences or used as ornamentation.

Wood Household Furniture

The primary types of wood household furniture include all types of dining furniture, tables, chairs, buffets, breakfronts, china cabinets and servers. Other types of wooden furniture, frequently referred to as "case goods," include nonfolding chairs (except director's chairs) as well as occasional tables which are small items such as end tables, coffee tables, cocktail tables, console tables and other similar tables. Bedroom furniture is also an important part of wood household furniture and includes beds, headboards, dressers, night stands, chests of drawers, highboys and other bedroom storage furniture. Also included are wall systems, bookcases, and wall storage cabinets along with juvenile furniture, all other types of wooden furniture, and all parts of wooden furniture.

Raw material

Wood is the principal component used in the manufacture of household furniture because of its popularity, availability, susceptibility to being "worked" (shaped or bent), attractiveness, and durability. There are a wide variety of woods which can be used in furniture fabrication. The principal hardwoods used for domestic production include oak, walnut, ash, maple, cherry, and mahogany. Pine and spruce are the most common domestic softwoods. The principal woods used in imported furniture include mahogany, beech, ramin, teak, pine, and, to a lesser extent, rubber wood.

Composition wood, which includes particle board and fiberboard, is also widely used in furniture construction. Particle board, composed of heat-treated and compressed wood chips or waste woods mixed with glue, is used in the formation of many pieces. Fiberboard, which is made of compressed wood fibers, includes chip-core (compressed waste wood) and resin-core (fine particles of the resinous inner core of wood). Particle board and fiberboard are the main types of composition board used in furniture manufacture; resin-core, the product most closely matched to solid wood, is also the most expensive type of composition wood. In the finished product, the composition board is concealed by veneers, plastic laminates, or upholstery.

Some of the major furniture manufacturers operate their own chip-core or particle board plants where wood scraps are processed into usable pieces which may be consumed by the company's own furniture plants or sold to other manufacturers. Particle board and other types of manmade wooden boards are noted for their strength and general tendency not to warp or crack in humid climates or areas where there is an excess of moisture.

Veneers are also used extensively in furniture production. Veneering consists of gluing a thin layer of fine wood, usually between 1/32 and 1/64 of an inch thick, to an inferior wood or composition board to produce the smooth attractive surface associated with fine wood. Additionally, veneers can be made of other materials, such as plastic or paper, which can be designed or finished to look like wood. Through the use of veneers, the cost of raw materials is reduced. Also, fragile fine woods can be utilized as a veneer over compressed or laminated wood, thereby imparting increased strength or durability to the article. Veneering can also produce a more attractive final product, since it allows for the utilization of grain patterns which would otherwise be unsuitable, such as in burls and knots.

Production process

The production process for wood household furniture varies with the type of material used, the type of product manufactured, including the eventual price range, and the size and diversification of the production facilities. In all cases, however, the process is labor intensive to varying degrees. Most large furniture manufacturers operate integrated plants with large, wood-finishing operations which process wood either in log form, or rough lumber, or panel form. After the wood has been treated and dried to insure the proper moisture content, it is further processed by being cut to the required thickness and length, and milled, routed, lathed, and/or glued, as necessary. There is an increasing amount of automated equipment being used in this process, such as numerically controlled routers, particularly by the larger manufacturers. The various components are then assembled, to a large degree by hand, in production runs or "cuttings," which consist of many units of the same article produced at the same time. The final and most delicate process is the sanding, staining and veneering, which is done in the "finishing room" and generally requires a number of steps before the final finish is acceptable to the consumer. After the addition of any hardware, ornamentation, or cushions, the finished product is inspected and packaged for shipment.

Upholstered Household Furniture

Upholstered household furniture includes all sofas, love seats, couches, sleep sofas, motion chairs (i.e., recliners), other upholstered chairs, sectionals, and all other upholstered furniture.

Raw material

Upholstered furniture refers to articles made of some upholstery material, including polyester, wool, cotton, and other natural and manmade fibers. Polyester and polyurethane foam and other types of stuffing such as batting are generally used as padding, while canvas, plastic, wicker, rattan, and carved wood are used as integral parts in many articles.

Production process

The production process for upholstered furniture begins with the selection and cutting of the upholstery fabric, usually following the choice of a particular fabric by the customer to match the desired piece of furniture. After the material is cut to pattern, the pieces are sewn into cushions, backs, and front pieces, then filled with the padding material and added to the frame. The padding and upholstered material are usually applied by sewing or stapling to a wooden or, to a lesser extent, metal frame. These frames may be purchased already assembled, or they may be produced at the upholstery plant. The manufacture of upholstered household furniture products is highly labor intensive and requires far less capital-intensive machinery than does the manufacture of case goods. The packaging and shipment of upholstered furniture is generally more expensive than for wooden furniture since this type of furniture is usually not shipped partially assembled or unassembled (also known as knocked-down (KD)).

TARIFF TREATMENT

U.S. Customs Treatment

Imported wood and upholstered household furniture and parts are classified under items 727.25(pt.), 727.27(pt.), 727.29(pt.), 727.35(pt.), 727.40(pt.), 727.45(pt.), and 727.70(pt.) 1/ of the Tariff Schedules of the United States Annotated (1984) (TSUS) (app. E). Prior to January 1, 1984, imports of all furniture of wood, except chairs and parts, entered under TSUSA item 727.3540, a basket or residual provision. Imports of upholstered furniture and parts of cotton entered under TSUSA 727.3560, also a large basket provision. In response to a 484(e) 2/ petition submitted last year by the American Furniture Manufacturers Association, additional statistical breakouts were provided on January 1, 1984, for a number of wood furniture items such as desks and desk extensions, item 727.3525; dining tables, item 727.3530; other tables, item 727.3535; beds and headboards, item 727.3545; other bedroom furniture, item 727.3550; wall systems, book case, etc., item 727.3555; shelving, item 727.3560;and other wood furniture, item 727.3590. 3/ Imports of upholstered furniture of cotton and parts are now classified under the provisions of item 727.7080, a provision for miscellaneous articles of furniture.

1/ Prior to Apr. 1, 1984, imports of upholstered furniture and parts of cotton were classified under the provisions of TSUS item 727.35(pt.). As a result of several changes in the Tariff Schedules, the numbering system was changed and imports of these items are now classified under item 727.70(pt.). Imports data for the period covered by this study (1979-83), however, are shown under item 727.55(pt.).

2/ The 484(e) Committee is a permanent committee comprised of representatives from the U.S. International Trade Commission, the U.S. Customs Service, and the U.S. Department of Commerce. The Committee meets regularly to consider requests to provide additional statistical breakouts for the Tariff Schedules of the United States.

3/ These additional statistical breakouts provide greater detail concerning the type of wood furniture imported into the United States.

Wood household furniture and parts

Wood household furniture covered by this investigation includes folding chairs, other than directors' chairs, classified under item 727.25(pt.); other chairs of teak, item 727.27(pt.); other non-folding chairs, item 727.29(pt.); dining tables, other dining furniture, occasional tables, bedroom furniture, wall systems, and other wooden household furniture, item 727.35(pt.). Parts of wood furniture, except bedsprings, are provided for under item 727.40(pt.). All wooden sewing machine cabinets, wood radio and TV cabinets, director's chairs, and mirrors are excluded.

Upholstered household furniture and parts

Upholstered household furniture included in this investigation is covered under furniture of textile material, except cotton, under item 727.45(pt.); and other furniture, which includes furniture of cotton material and parts, provided for under item 727.70(pt.).

Table 1 shows the Pre-MTN column 1 rate of duty, the staged rates, and the column 2 rates of duty applicable to U.S. imports of wood and upholstered household furniture and parts. The rates of duty in column 1 are most-favored-nation (MFN) rates, and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the Tariff Schedules of the United States Annotated (TSUSA). 1/ However, such rates do not apply to products of developing countries which are granted preferential tariff treatment under the Generalized System of Preferences (GSP), or the Caribbean Basin Initiative (CBI).

The GSP, discussed in detail later in this report, is a program of nonreciprocal tariff preferences granted by the United States to developing countries to aid their economic development by encouraging greater diversification and expansion of their production and exports. The GSP, implemented by Executive Order No. 11888 of November 24, 1975, applies to merchandise imported on or after January 1, 1976, and is scheduled to remain in effect until January 3, 1985. 2/ It provides for duty-free treatment of eligible articles imported directly from designated beneficiary developing countries.

The CBI is a program of nonreciprocal tariff preferences granted by the United States to developing countries in the Caribbean Basin area to aid their economic development by encouraging greater diversification and expansion of their production and exports. The CBI, implemented by Presidential Proclamation 5133 of November 30, 1983, applies to merchandise entered, or

---

1/ The only Communist countries currently eligible for MFN treatment are the People's Republic of China, Hungary, Romania, and Yugoslavia.

2/ Legislation is pending in the Senate (S. 1718) to extend the GSP program. No legislation has been introduced in the House to extend the program, but it is anticipated that a bill will be introduced in the near future.

Table 1.—Wood and upholstered household furniture and parts thereof: U.S. rates of duty, present, and negotiated, by TSUS items

(Percent ad valorem)

TSUS item No. 1/	Description	Pre-MTN col. 1 rate of duty	Staged col. 1 rate of duty effective with respect to articles entered on or after Jan. 1— 2/								Col. 2 rate of duty 3/
			1980	1981	1982	1983	1984	1985	1986	1987	
727.25(pt.)A	Folding chairs, other than director's chairs.	8.5%	8.1%	7.7%	7.3%	6.9%	6.5%	6.1%	5.7%	5.3%	40%.
727.27(pt.)A	Chairs of teak	8.5%	7.9%	7.2%	6.6%	6%	5.3%	4.7%	4%	3.4%	40%.
727.29(pt.)A*	Chairs other than of teak	8.5%	8.1%	7.7%	7.3%	6.9%	6.5%	6.1%	5.7%	5.3%	40%.
727.35(pt.)A*	Wood furniture, other than chairs, including dining tables, other dining furniture, occasional tables, bedroom furniture, wall systems, and other household furniture.	5%	4.7%	4.4%	4.1%	3.8%	3.4%	3.1%	2.8%	2.5%	40%.
727.40(pt.)A	Parts of furniture, except bedsprings.	8.5%	8.5%	8.5%	8%	7.4%	6.9%	6.4%	5.8%	5.3%	40%.
727.45(pt.)A	Furniture of textile material, except cotton.	17.5%	16.2%	14.9%	13.6%	12.3%	10.9%	9.6%	8.3%	7%	80%.
727.70(pt.)A*	Furniture of cotton material	10%	9.3%	8.5%	7.8%	7%	6.3%	5.5%	4.7%	4%	45%.

1/ The designation "A" means that all beneficiary developing countries are eligible for the Generalized System of Preferences (GSP). "A*" indicates that certain of these beneficiary developing countries, specified in general headnote 3(c) of the Tariff Schedules of the United States Annotated, are not eligible for the GSP.

2/ Rate negotiated in the Tokyo round of the Multilateral Trade Negotiations in Geneva, to be achieved through 8 annual reductions, with the final reduction to be effective Jan. 1, 1987.

3/ Rate provided in the Tariff Act of 1930.

withdrawn from warehouse for consumption, on or after January 1, 1984, and is scheduled to remain in effect until September 30, 1995. It provides for duty-free entry of eligible articles imported directly from designated developing countries in the Caribbean Basin area. All of the articles subject to this investigation could be eligible for such duty-free entry.

The rates of duty in column 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(f) of the TSUSA.

Customs Treatment of Major U.S. Competitors

Although the United States and Canada have established their own classification systems, most countries of the world, including Denmark, Taiwan, and Yugoslavia (major sources of U.S. imports of household furniture), use the Customs Cooperation Council Nomenclature (CCCN) as the basis for their tariff classifications. 1/ In the CCCN, chairs, couches, sofas, and other seats (except those for medical use) are classified under heading 94.01, and other wood household furniture and parts thereof under 94.03; Canada classifies these products under heading 51901-1. Table 2 shows the tariff items, present rates of duty, and the rates of duty negotiated under the MTN for the major sources of U.S. imports of household furniture.

1/ Canada, Denmark and Yugoslavia are members of the General Agreement on Tariffs and Trade (GATT). Although Taiwan is not a party to the GATT, it administers its tariff system according to the rules of the GATT.

Table 2.--Household furniture: Present and negotiated rates of duty in selected countries

Source	Description and tariff item	Present rate of duty 1/	Negotiated rate of duty 2/
Canada	House, office, cabinet, or store furniture of wood, iron or other material, and parts thereof, not to include forgings, castings, and stampings of metals in the rough:		
	Other (51901-1)	16.9% ad val.	15% ad val.
European Community	Chairs, couches, sofas, and other seats (9401):		
	Other (household types)	6.7% ad val.	5.6% ad val.
	Other (94.03) (wood household furniture)	6.7% ad val.	5.6% ad val.
Taiwan	Chairs and other seats (other than medical, surgical, or veterinary furniture), whether or not convertible into beds, and parts thereof (94.01).	100% ad val.	3/
	Other furniture and parts thereof (94.03) (chiefly of wood).	100% ad val.	3/
Yugoslavia	Chairs and other seats of wood (94.01)	20% ad val.	3/
	Other furniture and parts thereof (94.03) (chiefly of wood).	20% ad val.	3/

1/ Current duty rates applicable to imports from the United States.
2/ Final rates negotiated under the Multilateral Trade Negotiations (MTN) in Geneva.
3/ Did not sign the MTN agreements.

8

TRADE REGULATIONS

The United States

In practice, U.S. imports of household furniture are not affected by any specific trade regulations. However, U.S. Government purchases of imported household furniture, which have traditionally been small, may have been somewhat limited by the Buy American Act. 1/

Major U.S. Trading Partners

Canada

Furniture imports into Canada from the United States are accorded most-favored-nation (MFN) rates. Preferential rates, however, are reserved for certain Commonwealth countries and developing countries. Except for import duties, entries from the United States of wood and upholstered household furniture are free from import restrictions. Imports of furniture into Canada are assessed a tariff based on a customs valuation procedure using a "fair market value" in assessing duties rather than the transaction value. This has been used to eliminate any price advantage of U.S.-produced furniture.

Denmark

The EC, of which Denmark is a member, conducts duty-free trade among themselves and has a common tariff on imports from non-EC countries. The United States is accorded MFN treatment. Denmark has no customs surcharges, but all imports are subject to a 22 percent value-added tax (VAT), which is also levied on domestic products. It should also be noted that Denmark, and most other countries including all EC countries, use the metric system, but no mandatory metric standards are applied in Denmark.

Taiwan

In addition to paying customs duty on the dutiable value of imports, which is defined as the c.i.f. value, a 10 percent ad valorem customs uplift tax is imposed. Also, importers must pay 4 percent in harbor dues, based on the dutiable value of the imports. The harbor dues are waived for shipments by air freight or parcel post.

1/ Under the Buy American Act, 41 U.S.C. 10a-10d (1978), U.S. Government agencies may purchase products of foreign origin for delivery in the United States only if the cost of the domestic product exceeds the cost of the foreign product, including duty, by 6 percent or more. This differential rises to 12 percent if the low domestic bidder is situated in a labor-surplus area, and to 50 percent if the purchase is made by the Department of Defense. The preferences may be waived in the public interest, however.

All transactions involving foreign currencies require a license or prior permission.

Yugoslavia

In addition to customs duties, imports into Yugoslavia are subject to (1) a 1 percent ad valorem customs evidence tax to offset customs costs, (2) a 6 percent equalization tax to compensate for certain internal taxes paid by domestic manufacturers, and (3) a 7 percent surcharge on imports.

Imports are subject to an agreement between importers, manufacturers, and consumers which is signed at the beginning of each year in the Yugoslav Changer of Economy, a government agency. No items in any industrial group can be imported without such an agreement, which provides for such things as allotments of merchandise, distribution of merchandise, etc. Finally, if U.S. furniture is to be imported, the importer is required to export Yugoslavian goods of equal value prior to the arrival of the imported goods. This provision may be waived when the Yugoslav government determines the import of the item to be particularly important.

Other

Respondents to the Commission's questionnaires also listed a number of international trade restrictions that have inhibited their exports. The country mentioned most frequently was Canada, the United States' largest export market. Canadian tariffs were mentioned most often. Middle Eastern countries, particularly Saudi Arabia and Kuwait, received the second largest number of questionnaire responses for such things as labeling and container requirements, difficulties with consular formalities, consular fees, discriminatory sourcing, and restrictive business practices. Random responses were received with respect to Australia, Japan, Korea, Mexico and England. No country was mentioned more than three times for any particular trade barrier, and most were listed only randomly for one or two categories.

THE U.S. INDUSTRY AND MAJOR FOREIGN COMPETITORS

United States

The U.S. furniture industry can be divided into several general areas: household furniture of metal and other materials; business and institutional furniture; special purpose furniture, such as medical, dental, and automotive furniture; and that which is the subject of this investigation--wood and upholstered household furniture.

The U.S. wood and upholstered household furniture industry consists of upwards of 2,500 firms located over much of the continental United States. Many companies, particularly the larger ones, manufacture both wood and upholstered household furniture.

Wood household furniture

There were approximately 2,100 manufacturers of wood household furniture (SIC 2511) in the United States in 1983, with 828 companies, or 39 percent, having 20 or more employees, and 12 having 1,000 or more employees. Although virtually every geographic area of the United States has some producers of wood household furniture, the bulk of the companies are located in the Southeast, especially North Carolina, Virginia, Tennessee, and Florida. There are also heavy concentrations of furniture manufacturers in California and New York State. Approximately 60 percent of the firms in the industry are small, family-owned concerns (less than 20 employees), having generally been owned by the same family for several generations. There are a small number of large companies (estimated at less than 20) that are considered by industry sources to dominate the industry; however, no company supplies more than 4 percent of the wood household furniture market. The trend in recent years has been towards more public ownership, and a number of corporations now own several different furniture companies that manufacture a variety of products.

Upholstered household furniture

Approximately 1,200 establishments manufactured upholstered household furniture in 1983, including many firms that produce both wood and upholstered furniture. Slightly over one half of the producers have 20 or more employees, with only 2 firms having 1,000 or more employees. Although upholstered household furniture manufacturers are scattered throughout the United States, the industry is concentrated in the Southeastern States, particularly North Carolina and Tennessee. However, over 260 upholstered furniture manufacturers are located in California because of the size of the West Coast market and because most upholstered furniture produced in that state is sold there due to its more restrictive flammability laws. A general rule of thumb in the industry is that each plant can service an area only within a radius of approximately 500 miles, since upholstered products are frequently bulkier and more expensive to ship than other wooden furniture or case goods which can often be shipped KD. The upholstered furniture industry is not dominated by a small core group of large firms; however, the three largest manufacturers that produce both wood and upholstered furniture are probably the best known upholstery producers nationally.

The upholstered furniture industry is somewhat different from that which produces wooden household furniture in that an upholstered furniture plant is easier to open and operate since much less capital intensive equipment is required to make upholstered furniture. Generally, upholstered furniture plants are smaller since a large area for the preparation and treatment of wood is usually not required nor is there a need for a large finishing room to apply lacquers and veneers to the wood surfaces. Much of upholstered furniture production is an assembly process since frames and/or the foam or padding are purchased precut or preassembled. Also, inventories for upholstered furniture producers are minimal since the upholstery business is based, to a large degree, on special orders. As a result, upholstered furniture manufacturers, especially the smaller ones, enter and exit manufacturing much more frequently than do wooden furniture or case goods producers.

Factors of production

Raw materials.--The raw materials used in the manufacture of wood and upholstered household furniture are almost exclusively of U.S. origin. Most of the hardwoods used in furniture production come from the Appalachian region of the United States and, to a lesser extent, the Pacific Northwest. The most popular wood currently used in furniture production is oak. Some woods, such as pecan, black walnut, and hickory, are not as prevalent as in past years. Although some domestic producers use mahagony, teak, and rosewood imported from South and Central America and Asia, these woods are not significant in the U.S. industry.

In the United States, basically, logs from National Forests and certain lands that belong to the Department of the Interior west of the 100th meridian can not be exported. Essentially, this requirement allows most U.S. hardwood logs to be exported, but logs from western softwood forests must be processed in domestic mills before the wood products can be exported.

Virtually all of the particle board, wafer board, and composition board used in furniture producton is manufactured in the United States, particularly in the Northeast and South. All veneers including "fancy face" 1/ veneers are made from U.S. hardwoods.

Most textile materials used in the manufacture of furniture, including those of cotton, are domestically made, although some special fabrics or prints may be imported. Since much of the textile industry is centered in the Southeastern United States, particularly North Carolina, it is easy for the furniture industry to obtain needed textile materials. Virtually all of the foam and padding material, as well as the frames used in upholstered furniture production, are manufactured in the United States.

Capital.--Since many of the companies in the furniture industry are privately held, they must raise capital from loans through a financial institution based on the credit record of the company or family owning it or become a publically held corporation. In recent years, several of the large furniture manufacturers have gone public in order to raise capital, and there is a growing trend in this direction. Also, several large corporations have purchased a number of furniture companies that produce lines that complement each other or that sell in different price points. This allows for both streamlining the administrative functions and for centralized purchasing, thus reducing costs and adding to profitability.

Data obtained from respondents to Commission questionnaires indicate profits rose erratically from 1979 to 1983 from $207.8 million to $225.7 million on sales of $2.3 billion and $2.6 billion, respectively, as shown on the following page:

1/ Fancy face veneers is the phrase used in the industry to denote wood inlay usually of more expensive woods, generally in some geometric pattern. This technique is primarily used on tabletops.

Table 3.--Total net sales and income before taxes for selected U.S. producers of wood and upholstered household furniture, 1979-83 1/

	1979	1980	1981	1982	1983
Total net sales					
1,000 dollars	2,259,338	2,353,670	2,439,042	2,363,877	2,652,682
Net income or loss before taxes					
1,000 dollars	207,793	191,419	193,335	164,959	225,675
Ratio of profits to net sales					
percent	9	8	8	7	9

1/ Respondents to the Commission's questionnaire represent about 40 percent of the industry in terms of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the International Trade Commission.

Earnings declined sharply at the end of 1981 and during 1982 as domestic economic conditions worsened. The industry showed signs of recovery during 1983 when most companies experienced increased sales and profit levels. Less than 5 percent of questionnaire respondents reported losses for any given year, with the greatest concentration of losses occurring during 1981 and 1982.

Capital expenditures.--Capital expenditures for wooden household furniture manufacturers increased during the period 1979-83, particularly in the areas of machinery, equipment, and fixtures, as shown on the following page.

Table 4.--Capital expenditures of wood household furniture manufacturers, 1979-83 1/

(In thousands of dollars)

Item	1979	1980	1981	1982	1983
Land or land improvements	1,159	1,034	1,047	860	1,129
Buildings on leasehold improvements	16,286	17,199	17,922	13,829	22,447
Machinery, equipment, and fixtures	38,541	36,674	47,670	39,715	53,014
Expenditures necessary to meet Federally mandated regulations, i.e., pollution control, etc	1,021	611	2/	2/	1,773

1/ Respondents to the Commission's questionnaire represent about 40 percent of the industry in terms of producers' shipments.

2/ Data have been withheld from publication to prevent the release of information about individual companies.

Source: Compiled from data submitted in response to questionnaires of the International Trade Commission.

The amount spent on acquiring additional land or making improvements on currently owned land remained relatively constant during the period 1979-83, averaging $1.05 million annually. Capital investments in new buildings increased irregularly during the same period, rising from $16.3 million to $22.4 million. The bulk of expenditures during the period under consideration was for machinery and equipment. These expenditures increased from $38.5 million in 1979 to over $53.0 million in 1983, indicating that U.S. producers spent significant amounts to modernize their woodworking equipment. Very few of the questionnaire respondents specifically listed any expenditures necessary to meet federally mandated regulations, although this amount did increase from $1.0 million in 1979 to $1.8 million in 1983. A number of respondents, including several major producers, stated that they had included these expenses in the category for machinery, equipment, and fixtures.

Expenditures for upholstered household furniture manufacturers paralleled those of the wood household furniture manufacturers, as shown on the following page.

Table 5.--Capital expenditures of upholstered household furniture manufacturers, 1979-83 1/

(In thousands of dollars)

Item	1979	1980	1981	1982	1983
Land or land improvements	172	793	1,500	44	199
Buildings on leasshold improvements	2,120	6,339	6,746	4,212	7,076
Machinery, equipment, and fixtures	12,629	11,259	8,562	7,173	13,633
Expenditures necessary to meet Federally mandated regulations, i.e., pollution control, etc	-	-	-	-	-

1/ Respondents to Commission's questionnaires represent about 25 percent of the industry in terms of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the International Trade Commission.

Capital expenditures on land fluctuated greatly during the period, averaging $541,600 annually, with the peak investment occurring in 1981 at $1.5 million. Spending on buildings increased irregularly in the period 1979-83, rising from $2.1 million to $7.1 million, and averaging $4.5 million. By far the largest amount of capital expenditures was in the area of new machinery and equipment, which increased erratically from $12.6 million in 1979 to $13.6 million in 1983 as manufacturers continued to upgrade their factories. Only minimal amounts were reported under expenditures necessary to meet federally mandated standards. Several producers also included this figure with that reported under machinery, equipment, and fixtures. Despite these increases for capital expenditures in the industry as a whole, these expenses rose only 5.5 percent annually in the 1972-81 period per production worker, compared to 14.6 percent for all durable goods manufacturers. 1/

Table 6 below lists the amounts spent by questionnaire respondents for both wood and upholstered furniture manufacturers in the area of research and development expenses.

1/ U.S. Department of Commerce, U.S. Industrial Outlook, 1984, Washington, D.C., p. 43-5, 43-6.

Table 6.--Research and development expenses for selected wood and upholstered furniture manufacturers, 1979-83

(In thousands of dollars)

Year	Wood	Upholstered
1979	6,249	5,246
1980	6,856	5,631
1981	7,312	6,093
1982	8,232	6,672
1983	8,263	6,789

Source: Compiled from data submitted in response to questionnaires of the International Trade Commission.

The overwhelming majority of the amounts spent by both wood and upholstered furniture manufacturers was for the development and marketing of new products, particularly those shown at the semi-annual furniture markets.

Employment, hours worked, and wages.--In 1983, approximately 120,000 persons were employed by all firms that produce wood household furniture with an estimated annual payroll of $1.6 billion. Ninety-five percent of these employees worked for companies that employ 20 or more workers. Roughly 81,000 workers were employed by upholstered household furniture manufacturers with an annual payroll of approximately $950 million in 1983. Similarly, approximately 95 percent worked for companies that employ 20 or more workers. Although there are some unionized plants scattered throughout the United States, most workers, especially those in the Southeastern and Southwestern States, do not belong to labor unions. 1/

Table 7 shows the average number of all employees in firms producing wood and upholstered furniture and those involved directly in the production process of such furniture. The total number of all employees in firms producing wood household furniture declined in the period 1979-83 from 59,500 to 53,700, as did the number of production workers, from 53,200 to 47,700. Production and related workers represented about 89 percent of the total workforce in the wood household furniture industry. The total number of all employees in firms producing upholstered household furniture decreased less than in the wood household industry, falling from 19,700 to 19,100 for the period under consideration. The number of production workers also declined slightly from 16,400 in 1979 to 15,900 in 1983. For the upholstered household furniture industry, production and related workers represented an average of 83 percent of total employees.

1/ Most unionized workers are represented by the United Furniture Workers of America, an affiliate of the AFL-CIO; some are represented by the United Brotherhood of Carpenters and Joiners.

Table 7.--Average number of all employees and average number of production and related workers in the wood and upholstered household furniture industries of reporting establishments, 1979-83 1/

Item	1979	1980	1981	1982	1983
Average number of all employees in the reporting establishment(s) producing--					
Wood:					
Total employees	59,486	58,696	58,585	53,195	53,713
Production-related employees	53,193	52,205	51,987	47,094	47,708
Upholstered:					
Total employees	19,684	19,202	18,964	17,623	19,123
Production-related employees	16,417	15,873	15,655	14,432	15,903

1/ Production and related workers include working foremen and all nonsupervisory workers engaged in fabricating, processing, assembling, inspection, receiving, storage, handling, packing, warehousing, shipping, maintenance, repair, janitorial and watchman services, product development, auxiliary production for plant's own use (e.g., power plant) and recordkeeping and other services closely associated with the above production operations. Also included are any full-time contract employees. Production and related workers do not include supervisory employees (above the working foreman level) or their clerical staff, salesman, and general office workers. Respondents to the Commission's questionnaire accounted for approximately 40 percent of the industry in terms of value of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the International Trade Commission.

In the household furniture industry, there are a variety of unskilled and semiskilled positions, such as lacquer spray operators, case fillers, router operators, button makers, and skirt sewers; relatively few of the workers (less than 10 percent) are classified as highly skilled. In 1983, the average hourly wage for all workers in the industry was approximately $5.70, not including benefits, up from approximately $4.25 in 1979. Benefits, including vacation, sick leave, awards, incentives, etc., add an estimated $1.00 to $1.50 to the hourly wage of most workers. Upholstered furniture workers tend to earn approximately $1.00 per hour more than those producing wooden furniture or case goods. Wages and benefits in unionized plants tend to be slightly higher than in the non-union plants. Although occasionally, a company may operate multiple shifts to fill a backlog of orders or to replace a depleted inventory, the furniture industry usually operates on a 1 shift per day, 40-hour work week. During the 1981-82 recession, in order to avoid layoffs, many companies went to shortened work weeks or shortened shifts.

Level of technology.--Although a variety of advanced woodworking machines and computerized technology are available, most U.S. wood and upholstered furniture manufacturers do not use them or are unable to use them to a large degree. Most large, wood furniture or casegoods manufacturers do have several

pieces of modern equipment such as double-edged tenons and special routers, etc., but the production process is still extremely labor intensive and generally the machinery currently in use has been in place for many years. Most advanced wood working equipment comes from Europe, particularly Germany and Italy, and, to a lesser extent, from Japan. These machines generally are expensive, often costing in the hundreds of thousands of dollars and require a major capital investment and production commitment. Additionally, many of the advanced machines cannot be utilized to their full capacity because they are placed in an assembly line that cannot match their production ability. As a result, many U.S. producers, particularly the smaller to mid-sized firms, have been reluctant to purchase much advanced machinery and prefer instead to rely on the more traditional labor intensive methods. Additionally, the ability to automate substantially in the furniture industry is questionable. First, much of the manufacturing process is concerned with wood, a product which is far from uniform and generally requires much special handling. Second, the type of machinery and equipment varies depending on the price range of the furniture that is being manufactured, the style category, and the types of wood, wood products, and veneers being utilized in the product mix. Finally, much of the furniture industry is a style oriented business with constantly evolving and changing products; production runs must be changed often to accomodate these styles.

Some large manufacturers are using computer assisted technology to a small extent for inventory control of parts and to track different production runs, but very few are making extensive use of computers in the assembly or finishing operations. There is also limited use of robotics in the production lines of several large manufacturers. One major manufacturer opened a largely automated plant in Virginia to manufacture casegoods but, according to industry sources, the plant has never been profitable because of the huge costs associated with the initial startup. Most upholstered furniture production is manufactured by labor intensive methods, with the bulk of the capital equipment consisting of small machines, such as sewing machines and overhead staplers.

Transportation.--U.S. manufacturers of wood household furniture or casegoods primarily ship their furniture to retailers by common carrier, either motor or rail or a combination of the two. Upholstered household furniture producers primarily use privately owned trucks to deliver their furniture. Large manufacturers who produce both wood and upholstered household furniture generally adhere to this pattern also; casegoods go by common carrier, upholstered furniture by private fleets. Industry sources estimate that for furniture shipped by common carrier, 75 percent is by motor carrier, the remainder is by boxcar or piggyback shipment. Almost universally, transportation costs are paid by the retailer.

The deregulation of the transportation business, both motor and rail, which began in 1980, has had a profound effect on the furniture industry. Freight rates have been significantly reduced. Many truckers are now willing to backhaul furniture after delivering other goods to furniture producing areas; conversely, furniture producers' own trucks can also backhaul other goods to cut overall transportation costs.

As a rule, U.S. producers rarely maintain regional assembly plants or warehousing operations. The bulk of U.S. companies have found it more efficient to prepare articles of furniture for shipment at the production site and warehouse them nearby. Those companies that are large manufacturers of upholstered furniture have generally opened upholstery plants on the West Coast to service that market if sales so warrant because transportation of upholstered furniture is more expensive than that for casegoods.

The actual cost of the transportation of furniture is dependent on a wide variety of factors, the most important of which are the weight of the furniture and the length of the shipment. The key to lower costs for shipping furniture is the volume and frequency of shipments. The more articles shipped, particularly if a full truck load, the lower the cost. If furniture shipments are to a "corridor area," meaning along major routes to major cities, rather than to more remote areas, costs are lower.

Additionally, intrastate freight rates may be higher than interstate rates. One major U.S. manufacturer has indicated that for freight shipments of under 5,000 pounds, the rate from Los Angeles to San Francisco is slightly higher than that from the East Coast to San Francisco. Also, some major furniture manufacturers offer freight consolidation services that lower the freight rates to areas farther from the factory. Overall, the cost of domestic transportation of furniture articles ranges from 2 percent to more than 20 percent of the total cost of the item, depending on the above factors.

The furniture industry is concerned about the costs of domestic transportation and is constantly searching for ways to reduce them. Motor carrier rates are scheduled to be deregulated beginning in July 1984, which could lead to somewhat lower rates, but certainly a more confusing array from which to choose. The furniture trade association is also exploring the possibility of consolidated shipments by various manufacturers in an effort to increase volume and lower costs.

Government policies affecting industry.--The household furniture industry is faced with a variety of governmental regulations which have had an impact on the operations of the industry. The primary federal agencies monitoring the household furniture industry are the Department of Labor--Occupational Safety and Health Administration (OSHA); the Environmental Protection Agency (EPA); and to a lesser extent, the Consumer Products Safety Commission (CPSC). Most industry complaints are heard against OSHA regulations, which have jurisdiction over such things as exposure levels to wood dust and noise, machine guarding, and standards requiring special equipment for spray painting or lacquering areas because of both flammability and health hazards. The EPA has required a number of special treatment processes or even special plants to dispose of waste and scrap, particularly the runoff of excess water and paint used in the spray painting operations. The CPSC has been primarily concerned with developing flammability standards for upholstered fabrics and has encouraged the industry to do much of this on a voluntary basis. Industry representatives indicated that many of the regulations were designed or became more strictly enforced during the 1960's and 1970's and often initially cost individual manufacturers substantial sums of money to come into compliance.

In addition to these federal regulatory bodies and their requirements, many states have their own counterpart agencies and laws. These agencies also carefully monitor the furniture industry and charge fees for inspection as well as fines if specific requirements have not been met. The state most traditionally noted for its regulations is California, which is the only state with specific flammability standards. California has more stringent flammability requirements on upholstered furniture, whether manufactured domestically or imported, must meet these requirements, including special labeling requirements. Also, because of the severe pollution problem in the Los Angeles area, the local equivalent of the EPA will not allow furniture manufacturers in the area to expand production operations because of the added pollution resulting from the paint-spraying and lacquering operations. As a result, several local manufacturers have turned to importing as a means of expanding their product lines and increasing sales.

Major Foreign Competitors

Taiwan

Industry profile.--The United States was Taiwan's largest export market for wood household furniture in 1983, with very little upholstered furniture coming from that country. There are at least 50 to 60 manufacturers of wood furniture and parts in Taiwan, with the top five companies accounting for 80 to 90 percent of furniture production as well as for most exports to the United States. Total furniture production in Taiwan is estimated to have amounted to $53 million in 1982, the latest year for which figures are available. 1/ The plants are scattered throughout Taiwan and several of the large companies operate multiple plants as do the large companies in the United States. Because of the more moderate climate, many firms do not have traditional four-wall-type factories, but only shed-like structures to protect the workers and equipment from the rain. The humid weather there is also an important factor since humidity ranges are different from those in the United States. Thus, different drying techniques are required for wood furniture to be exported. The quality also varies greatly from manufacturer to manufacturer and even from plant to plant for the same manufacturer; but the largest producers generally have a quality level acceptable to consumers in the United States.

Raw materials.--While Taiwan has virtually none of the raw materials necessary for furniture production, it has become a major center for world furniture production. Most of the wood furniture imported from Taiwan incorporates particle or compressed board as a base material; the bulk of these materials are imported from the United States. Some hardwoods such as ramin and rubber wood are used; most of this wood is imported also, principally from Malaysia. The largest furniture manufacturer in Taiwan owns lumber plantations and the sawmills necessary to process raw logs in Malaysia, making it a vertically integrated producer. To appeal to the American

1/ Based on official statistics of Taiwan taken from the Report on Industrial and Commercial Surveys, 1982, Department of Statistics, Ministry of Economic Affairs.

consumer, popular U.S. hardwoods are used as veneers, with practically all these woods imported from the United States. Finally, the Taiwan furniture manufacturers, particularly the larger exporters, use finishing materials including stains and lacquers imported from the United States. In fact, many U.S. technicians, as well as U.S.-trained local workers, are running the finishing operations and training native employees to perform these tasks, which are among the most crucial stages in furniture production. One industry source estimated that approximately 60 percent of the cost of furniture produced by these companies comes from materials and services supplied by the United States.

Capital.--Furniture manufacturers in Taiwan are for the most part small and owned by local entrepreneurs who raise capital through traditional bank loans and/or allegedly from government subsidized low cost loans, available to companies that are export oriented. However, the largest manufacturers, who are also the largest exporters, are owned by international conglomerates who are also involved in shipbuilding, hotel and construction management, and other wood and foresting operations. Several of these companies are incorporated in either Hong Kong or the British Virgin Islands, where corporate tax structures reportedly are more favorable. The large corporations are frequently divided into a number of separate entities, generally for tax purposes. The U.S. operation of the largest exporter recently went public and began selling shares on the New York stock exchange.

Labor.--Historically, furniture manufacturing has been characterized as labor intensive. For this reason, Taiwan was selected by several large international corporations in the late 1960's and 1970's as the logical place to locate for furniture production. While labor rates in Taiwan average $1.40 to $1.70 per hour (about one-fifth that of American wages for furniture production), wages are escalating rapidly as manufacturers of various products (including furniture) expand operations and compete for workers in a dwindling labor base. 1/ Industry sources estimate that the current wage advantage may last only for another 10 years or so before the furniture industry is forced to move to lesser developed developing countries, such as Malaysia or the Peoples Republic of China.

Approximately 31,000 employees were involved in the manufacture of non-metallic furniture in Taiwan in 1983; only a few companies employed over 200 workers. Most of the production workers were employed by producers that would be considered small by U.S. standards. A number of workers produce parts or even finished pieces in their homes in what can best be described as a cottage industry. There are no known unionized workers.

Technology level.--Since the majority of the large furniture plants in Taiwan were built in the last decade or so, they contain some of the more advanced and sophisticated woodworking machinery available. Some of the largest producers have been both able and willing to make the necessary capital investments to acquire the expensive technology available in woodworking equipment. However, computers or computer assisted technology or robotics have not been used to a significant degree in assembly operations.

1/ Furniture Today, July 17-August 8, 1983, p. 24.

Other.--Representatives of the U.S. industry allege that the government of Taiwan aids industries that are significant employers and seeks out foreign investment with preferential treatment. According to industry sources who have visited Taiwan, there are virtually no government health or safety regulations in Taiwan, so the industry operates in a basically regulation-free environment. In its investigation, the Commission was unsuccessful in its attempts to obtain specific information from Taiwan's Coordination Council for North American Affairs and other U.S. Government agencies regarding governmental policies and regulations that influenced the furniture industry in that country.

Canada

Industry profile.--The Canadian furniture industry is structured similarly to that of the United States, with a business and institutional segment and a residential or household segment, both of which are important exporters to the United States. Approximately 917 companies manufactured residential or household furniture in Canada in 1982, up from 844 in 1979. About 20-30 companies account for the bulk of Canadian shipments of household furniture to the United States. The following tabulation shows estimated shipments of Canadian household furniture during 1979-82 (in millions of dollars):

Year	Wood furniture	Upholstered furniture	Total
1979----	459.7	329.3	788.7
1980----	490.7	343.6	834.3
1981----	589.7	394.4	984.1
1982----	719.4	479.6	1,199.0

Total shipments of household furniture in Canada increased from $788.7 million in 1979 to $1.2 billion in 1982, or by 52 percent. Shipments of wooden household furniture accounted for approximately 60 percent of total Canadian household furniture, and upholstered furniture accounts for the remaining 40 percent. Most of the Canadian furniture manufacturers are relatively small, having fewer than 100 employees; only about 70 plants have over 100 employees and 1 has over 500 employees. Reportedly, Canadian furniture has historically been more expensive to manufacture than comparable U.S. furniture because of the smaller size of most operations in Canada and the lack of economies of scale. Approximately 85 percent of Canadian furniture is manufactured in the eastern provinces of Ontario and Quebec, with the remaining 15 percent produced in the west. Wood furniture comes principally from Quebec, with upholstered furniture primarily from Ontario. Consequently, the bulk of exports from Canada are from the eastern provinces. Many Canadian producers are closer to the major U.S. population centers in the northern quadrant than are most of the principal domestic manufacturers. In 1982, the latest year for which data are available, Canada imported a total of $344 million of household furniture, while exports totaled $290 million. 1/

1/ Source: Information supplied by the Quebec Furniture Manufacturers Association.

Raw materials.--Canadian furniture manufacturers obtain most of their raw meterials locally although some woods are imported. For most types of wood used in furniture production such as yellow birch, maple, oak and pine, Canada has a plentiful supply. Canada does not allow exports of logs from government property which includes virtually all forested land in Canada. However, fliches, cants (items such as railroad ties, etc.), and lumber may be exported.

Capital.--Canadian household furniture manufacturers are generally small, privately held companies which raise capital through traditional means, such as bank loans or sales. Reportedly, Canadian capital investment in furniture plants and equipment has been static over the past several years.

Labor.--Canadian labor costs for the manufacture of furniture approximate those in the United States. The total number of production and related workers for the household furniture industry was estimated at 19,500 in 1982, down from 24,000 in 1979. Employment is believed to have risen slightly in 1983. Estimated wages were $270 million in 1982, down slightly from the $274 million in 1979. Since most of the companies in the Canadian industry are small, employing less than 50 persons, the level of benefits such as paid vacation, holidays, sick leave, and health benefits is somewhat lower than that offered by most U.S. manufacturers. The industry is not highly unionized.

Technology level.--The level of technology for Canadian household furniture manufacturers is believed to approximate that for U.S. producers. However, due to the smaller size of the Canadian manufacturers, investment capital for the expensive woodworking machinery is generally less available than for the larger U.S. companies.

Other.--The Canadian furniture industry is faced with governmental regulations similar to those in the United States, particularly where the health and safety of employees and pollution standards are concerned.

Denmark

Industry profile.--The Danish wood and upholstered furniture industry accounts for about 2 percent of total Danish manufacturing sales. The number of firms producing wood and upholstered furniture declined from an estimated 415 in 1979 to 370 in 1982. Approximately 85 percent of these firms employed less than 50 persons each. No company employed more than 500 persons. The companies are, to a large degree, owned by the family that has operated them for several generations and are usually one plant operations. In this respect, they are similar to many small U.S. manufacturers, particularly those in the south. The principal furniture producing area is the peninsula of Jutland, where about two-thirds of the companies are located. The Danish furniture industry produced an estimated $511.0 million in 1983 of wood and upholstered household furniture, down from $551.4 million in 1979. The bulk of this furniture was wooden wall system units, wood dining tables, wood sofa tables, and wood chests and bureaus. The production of household furniture in Denmark is primarily concentrated on high quality, medium-priced and high-priced items. The highly skilled labor force combined with the well-known Scandinavian designs have given Danish furniture an excellent worldwide reputation. The Danish furniture industry is export oriented with well established distribution channels in all major export markets.

62-651 O - 86 - 4

Approximately 80 percent to 90 percent of total Danish household furniture is exported, primarily to the United States, West Germany, Norway and Sweden. The United States, which is Denmark's major market, receives an estimated 25 percent of total Danish furniture exports.

Raw materials.--Much of the wood used in Danish furniture production, such as beech or oak, is native to Denmark or other Scandanavian countries. However, all of the teak is imported, either from Southeast Asia in log form if the company is large enough to have its own sawmill operations, or precut into veneers (usually 1/32-inch thick) from West Germany. Any upholstered material used (while generally insignificant), is from local sources.

Capital.--Danish furniture manufacturers are small, mostly privately held concerns that must rely on the credit record of the company or the owners' personal credit record for capital. Like furniture manufacturers in most of the other countries under consideration, Danish furniture producers are not believed to have made many major capital expenditures in recent years.

Labor.--There were approximately 11,100 workers in the household furniture industry in Denmark in 1982, down from 12,300 in 1979. Total wages in 1982 were approximately $147 million (1982 dollars). Average hourly wages in 1983 for furniture workers were $9.23 for skilled workers and $7.49 for unskilled workers in the Copenhagen area. Outside Copenhagen, the hourly wages were $7.92 and $7.32, respectively. Fringe benefits in Denmark are divided among so-called mandatory benefits (covering vacation pay, holiday pay, unemployment, early retirement contributions, insurance, and sick pay, etc.) and voluntary fringe payments (preferential purchases of goods, recreational facilities, subsidized cafeterias, etc.). In 1983, the mandatory fringe benefits amounted to 24 percent of total net pay, and voluntary fringe benefits are estimated at between 3 and 4 percent of net pay.

Technology level.--Industry sources indicate that the household furniture industry in Denmark is among the most advanced in the world. Danish manufacturers have had access to the finest woodworking equipment available for a number of years. After the United States, the principal trading partner of Denmark for household or residential furniture is West Germany, the country that produces the most modern and up-to-date woodworking equipment. Danish furniture producers have long been skilled at producing high quality wood furniture with an acceptable finish that can be knocked down and shipped economically around the globe.

Other.--The Danish furniture industry is also faced with the same regulatory requirements that exist in most western, industrial countries. Generally, these requirements deal with health and safety regulations or with various pollution controls and frequently are costly to comply with.

Yugoslavia

Industry profile.--Approximately 130 firms produced wood and upholstered household furniture in 1983. Of this number, an estimated 30 produce furniture for export, with approximately a third of the plants built exclusively to produce Early American chairs and rockers for the U.S. market. There are a few large, specialized manufacturers which operate modern,

multiple plants and employ several thousand workers. However, the majority of manufacturers are small firms which employ between 250 and 500 workers each. The furniture industry is concentrated in the Republics of Bosnia-Herzegovina and Slovenia. Total household furniture production in Yugoslavia is believed to have declined in the period 1979-82, from an estimated $500 million to $430 million. Although data for 1983 are not available, production is reported to have increased 2 percent over 1982 levels, while prices rose an estimated 18 percent over the 1982 average. In 1981, prices of household furniture reportedly increased 50 percent over 1980 levels.

Yugoslav furniture is generally produced in the lower to medium price ranges with a heavy concentration in the Early American style. Industry sources indicate that the quality of the furniture varies greatly from plant to plant and area to area, with plants in southern Yugoslavia generally producing furniture of poorer quality.

Raw materials.--Wood for the wood household furniture industry, including that for furniture which is to be exported, originates primarily in Yugoslavia. Approximately 90 percent of it is beech, with other hardwoods occasionally being used. Very little upholstered household furniture is exported to the United States. In export shipments, most upholstered furniture is included with wood furniture, such as parts of seats, etc.

Capital.--The government basically owns the furniture industry and supplies necessary capital for plant expenditures and expansion. The economy of Yugoslavia has some elements of capitalism and several U.S. distributors of Yugoslav furniture are wholly owned by the Yugoslav government. The Yugoslav government has also gone into partnership with at least one U.S.-owned company for joint ownership of U.S. assembly operations.

Labor.--The number of Yugoslav furniture workers increased in the period 1979-83, from 123,700 to 137,200, with their overall percentage of the total workforce remaining constant at 2.25 percent. Wages vary from location to location, with the highest wages paid in the developed western part of the country and the lowest found in the less developed south. The average monthly wage for the furniture industry declined in terms of U.S. dollars from $203 in 1979 to $113 in 1983. An additional 74 percent should be added to the average pay to include employers contribution for health and retirement insurance, as well as prepaid taxes. Fringe benefits include payment of transportation costs; provision of 55 percent of the average monthly wage for vacation; subsidized cafeterias in the factories; extra bonuses based on the profits of the firm; and apartments at very low rental rates. The average monthly wage thus increased to $390 in 1983 with these benefits included.

Technology level.--Reportedly, the technology level of the Yugoslav household furniture industry is lower than that in the United States. According to industry sources, the quality is inconsistent and varies greatly.

THE U.S. MARKET

Domestic Market Profile

The demand for household furniture is influenced by a number of factors, including: (1) the level of disposable income, coupled with a declining birthrate and more families with two incomes; (2) population growth, particularly the increase in the number of young adults who are establishing new households; (3) the construction industry's emphasis on building smaller homes, which translates not only into a larger market for smaller-sized furniture, but also different designs of furniture items; (4) changing consumer tastes; (5) the level of interest rates; and (6) consumer confidence in the general economy.

U.S. Consumption

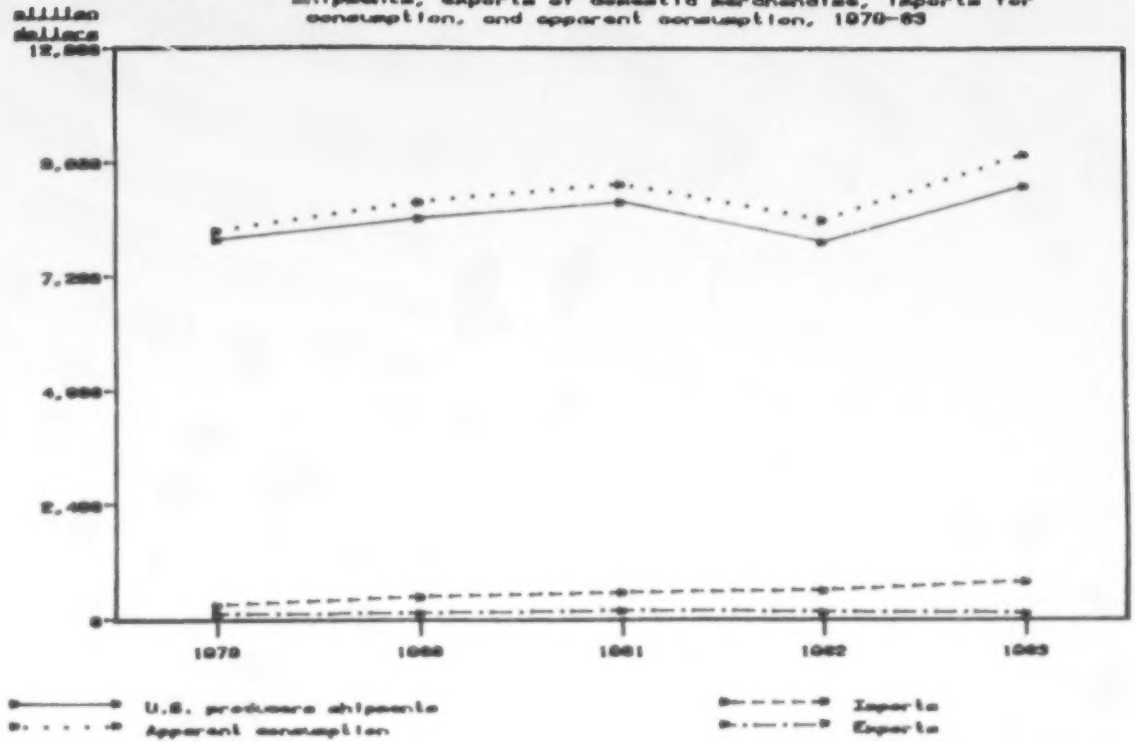
Generally reflecting its sensitivity to the availability of disposable income and to consumer confidence in the general economy, U.S. consumption of wood and upholstered household furniture fluctuated with the changing economic climate during 1979-83. Specifically, consumption rose moderately in 1979-81 (the rise generally reflecting inflationary pressures since the volume of consumption probably dropped), then fell in 1982 owing to the recession, and rose in 1983 as the economy rebounded. In this connection, the value of consumption increased from $8.2 billion in 1979 to $9.2 billion in 1981 (12 percent), declined by 8 percent in 1982 to $8.4 billion, and then rose by 17 percent in 1983 to $9.8 billion (table 8, fig. 1). During the period, the ratio of imports to consumption rose annually from 3.8 percent in 1979 to 8.1 percent in 1983.

Table 8.--Wood and upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83

Year	U.S. producers' shipments	Exports	Imports	Apparent consumption	Ratio of imports to consumption
	Million dollars				Percent
1979	7,980	116	312	8,176	3.8
1980	8,435	140	479	8,774	5.5
1981	8,783	177	553	9,159	6.0
1982	7,940	148	604	8,396	7.2
1983	9,112	125	795	9,782	8.1

Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983, from U.S. Industrial Outlook 1984; shipments for 1980 estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the U.S. Department of Commerce.

Figure 1.—Wood and upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83



Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983, from U.S. Industrial Outlook 1984; shipments for 1980, estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the Department of Commerce.

Wood household furniture

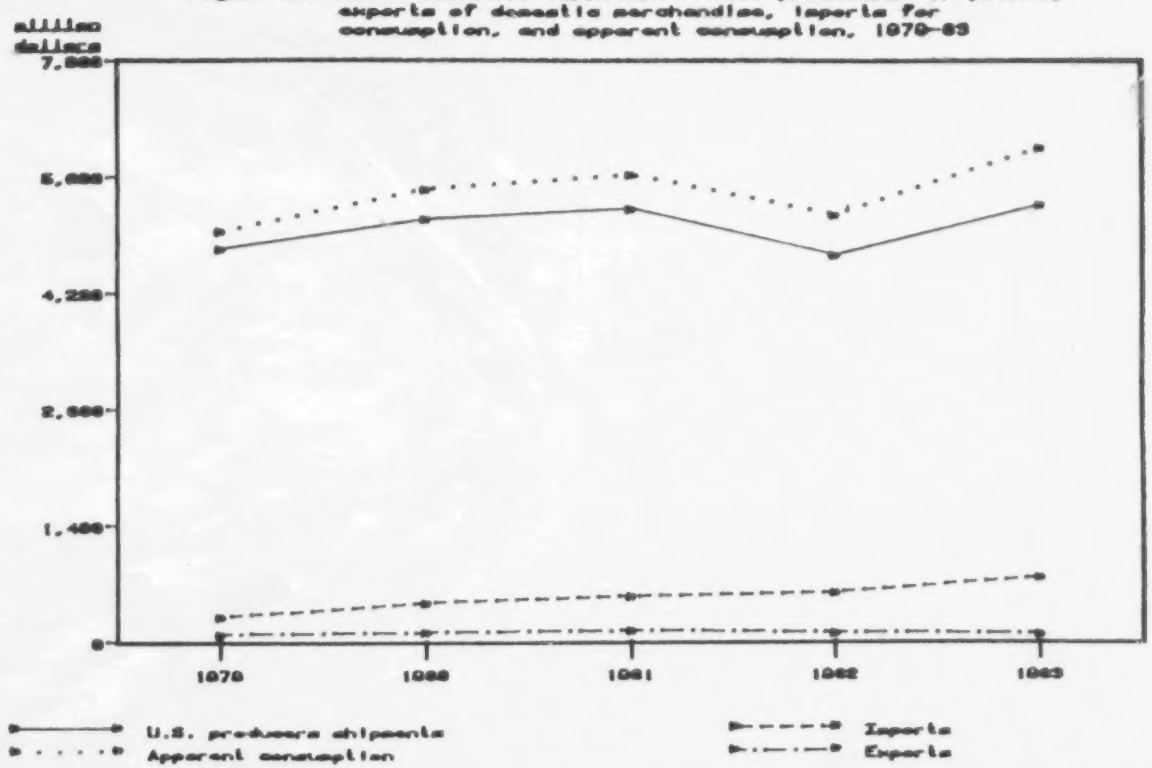
U.S. consumption of wood household furniture increased from $4.9 billion in 1979 to $5.6 billion in 1981 (14 percent), declined by 9 percent in 1982 to $5.1 billion, and then rose to $6.0 billion, or by about 16 percent in 1983 (table 9, fig. 2). During the period, the ratio of imports to consumption increased annually from 6.2 percent in 1979 to 13.1 percent in 1983.

Table 9.--Wood household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83

Year	U.S. producers' shipment	Export	Import	Apparent consumption	Ratio of imports to consumption
	Million dollars				Percent
1979	4,738	98	306	4,946	6.2
1980	5,100	119	473	5,454	8.7
1981	5,220	136	547	5,631	9.7
1982	4,662	110	596	5,148	11.6
1983	5,268	95	782	5,955	13.1

Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983 from U.S. Industrial Outlook 1984; shipments for 1980 estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the U.S. Department of Commerce.

Figure 2.--Wood household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83



Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983, from U.S. Industrial Outlook 1984; shipments for 1980, estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the Department of Commerce.

Upholstered household furniture

U.S. consumption of upholstered household furniture increased annually from $3.2 billion in 1979 to $3.5 billion in 1981, or by 9 percent, before falling by 8 percent in 1982 to $3.2 billion. Consumption then rose by 18 percent to $3.8 billion in 1983 (table 10, fig. 3). The ratio of imports to consumption was less than 0.5 percent in each year during 1979-83.

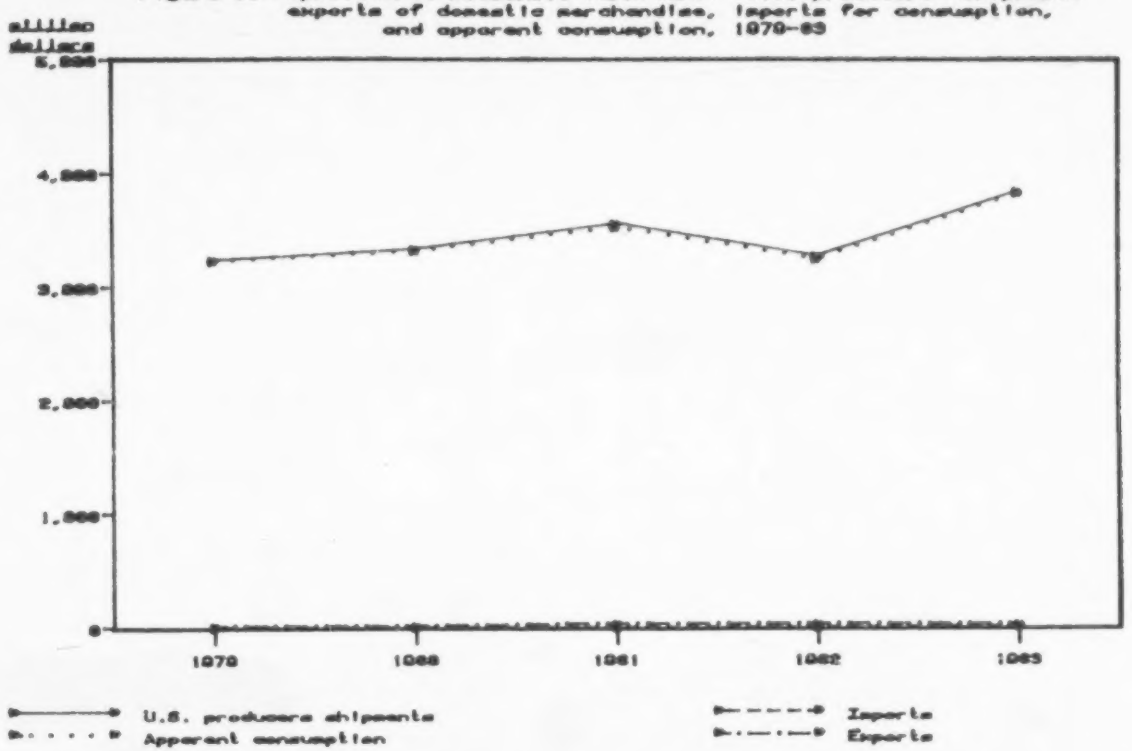
Table 10.--Upholstered household furniture: U.S. producers' shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83

Year	U.S. producers' shipments	Exports	Imports	Apparent consumption	Ratio of imports to consumption
	Million dollars				Percent
1979	3,242	18	6	3,230	1/
1980	3,335	21	6	3,320	1/
1981	3,563	41	6	3,528	1/
1982	3,278	38	9	3,249	1/
1983	3,844	31	13	3,826	1/

1/ Less than 0.5 percent.

Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983 from U.S. Industrial Outlook 1984; shipments for 1980, estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the U.S. Department of Commerce.

Figure 9.—Upholstered household furniture: U.S. producers' shipments exports of domestic merchandise, imports for consumption, and apparent consumption, 1979-83



Source: U.S. producers' shipments for 1979, 1981, 1982, and 1983, from U.S. Industrial Outlook 1984; shipments for 1980, estimated by the staff of the U.S. International Trade Commission; exports and imports, compiled from official statistics of the Department of Commerce.

Production, Capacity, and Capacity Utilization

Wood household furniture

U.S. production of wood household furniture in the period 1979 to 1983 actually declined in terms of units as reported by companies responding to the Commission's questionnaire. Production by the respondents fell from 20.5 million units to 18.7 million units, or by 9 percent for the period (table 11).

Table 11.--U.S. production of wood household furniture by selected U.S. producers, by types, 1979-83 1/

(In thousands of units)

Type	1979	1980	1981	1982	1983
Dining tables	774	693	731	554	682
Dining chairs	4,540	4,050	3,950	3,223	3,788
Other dining furniture	1,206	1,095	1,013	876	937
Other chairs	422	436	533	434	428
Occasional tables	3,129	2,890	2,850	2,519	2,718
Bedroom furniture	8,421	7,938	8,549	7,274	8,316
Wall systems	774	734	922	769	896
All other	1,211	1,078	1,030	823	926
Total	20,477	18,914	19,578	16,472	18,691

1/ Respondents to the Commission's questionnaire represented about 40 percent of the total industry in terms of the value of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Production of bedroom furniture, the most important in terms of units produced during the period, ranged between 7.3 million units and 8.5 million units. Dining tables and dining chairs as a group experienced the largest declines in production during the period. The capacity utilization rates for the same companies are listed below in table 12.

Table 12.--Wood household furniture: Capacity utilization rates by selected producers, by types, as of Dec. 1 of 1979-83

(In percent)

Type	As of Dec. 1--				
	1979	1980	1981	1982	1983
Dining tables	81	75	74	69	77
Dining chairs	82	77	74	67	76
Other dining furniture	85	78	75	68	74
Other chairs	86	84	83	75	81
Occasional tables	81	77	77	70	75
Bedroom furniture	83	79	76	70	77
Wall systems	86	83	82	70	76
All other	84	72	73	60	71

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Capacity utilization rates for all categories of wood household furniture in 1983 were below those reported for 1979; however, they improved somewhat from the lows reported in 1981 and 1982. The lower rates in 1981 and 1982 were due to reduced work weeks experienced by furniture plants.

Upholstered household furniture

Production data for upholstered household furniture manufacturers who responded to Commission questionnaires showed a small increase from 1979 to 1983, rising from 4.4 million units to 4.8 million units. Practically all categories of upholstered furniture showed production decreases through 1982; most rebounded in production runs in 1983. However, production of sectionals showed a continued increase in units produced during 1979-83, as shown in table 13.

33

Table 13.--U.S. production of upholstered household furniture by selected U.S. producers, by types, 1979-83 1/

(In thousands of units)

Type	1979	1980	1981	1982	1983
Sofas, love seats, couches	906	813	794	748	907
Sleep sofas	231	200	196	193	241
Action chairs	2,480	2,338	2,149	2,109	2,530
Stationary chairs	546	529	808	743	891
Sectionals	157	152	155	161	192
All other	41	44	42	39	38
Total	4,361	4,076	4,144	3,993	4,799

1/ Respondents to the Commission's questionnaire accounted for approximately 25 percent of the industry in terms of value of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

As in the wood household furniture industry, capacity utilization rates for the upholstered household furniture industry were lower in 1983 for all categories reporting than in 1979 for questionnaire respondents, as shown in table 14.

Table 14.--Upholstered household furniture: Capacity utilization rates by selected producers, by types, as of Dec. 1 of 1979-83

(In percent)

Item	As of Dec. 1--				
	1979	1980	1981	1982	1983
Sofas, love seats, couches	82	78	71	67	75
Sleep sofas	80	73	73	71	73
Action chairs	84	81	80	75	80
Stationary chairs	83	76	74	73	77
Sectionals	84	76	77	72	78
All other	80	72	74	67	72

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Action chairs appeared to have the highest utilization rates for the period 1979-83, with the category for miscellaneous upholstered products having the lowest.

U.S. Producers' Shipments

As domestic consumption of wood and upholstered furniture reacted to the changes in the general economy during 1979-83, so too did U.S. producers' shipments, which supplied the great bulk of the domestic market during the period.

The value of U.S. producers' shipments of wood and upholstered household furniture increased from $8.0 billion in 1979 to $8.8 billion in 1981, declined to $7.9 billion in 1982, and then rose to $9.1 billion in 1983 (table 15).

Table 15.--Wood and upholstered household furniture: U.S. producers' shipments, by types, 1979-83

Item	Wood	Upholstered	Total
	Million dollars		
1979	4,738	3,242	7,980
1980	5,100	3,335	8,435
1981	5,220	3,563	8,783
1982	4,662	3,278	7,940
1983	5,268	3,844	9,112
Percentage increase:			
1983 over 1979	11.2	18.6	14.2

Source: U.S. Industrial Outlook, 1984.

Wood household furniture

U.S. producers' shipments of wood household furniture grew from $4.7 billion in 1979 to $5.2 billion in 1981, fell to $4.7 billion in 1982, and then increased to $5.3 billion in 1983 (table 15). Throughout the 5-year period, wood household furniture dominated total shipments, accounting for approximately 60 percent of producers' shipments.

Upholstered household furniture

U.S. producers' shipments of upholstered household furniture increased from $3.2 billion in 1979 to $3.6 billion in 1981 before decreasing to $3.3 billion in 1982. In 1983, reflecting an improved economy, such shipments rose to $3.8 billion (table 15).

U.S. producers shipments by respondents to the Commission's questionnaire

Wood household furniture.--While the quantity of U.S. producers' shipments of wood household furniture declined for the period 1979-83, from 20.0 million units to 17.5 million units, the value of such shipments increased from $1.9 billion to $2.1 billion, as shown in table 16.

Table 16.--Wood household furniture: Certain U.S. producers' shipments, by types, 1979-83 1/

Item	1979	1980	1981	1982	1983
	Quantity (1,000 units)				
Dining tables	842	790	777	625	699
Dining chairs	4,562	4,044	3,949	3,213	3,693
Other dining furniture	1,229	1,105	1,058	820	980
Other chairs	395	403	459	419	429
Occasional tables	3,164	2,927	2,933	2,554	2,756
Bedroom furniture	7,805	7,243	7,576	6,536	7,360
Wall systems	766	726	905	763	899
All other	1,214	1,105	1,023	865	911
Total	19,977	18,343	18,680	15,795	17,527
	Value (million dollars)				
Dining tables	159	185	178	142	167
Dining chairs	261	252	256	215	249
Other dining furniture	213	227	227	175	201
Other chairs	15	12	13	12	12
Occasional tables	250	243	264	239	265
Bedroom furniture	786	775	845	788	914
Wall systems	71	73	101	100	119
All other	147	143	144	124	149
Total	1,902	1,910	2,028	1,795	2,076

1/ Respondents to the Commission's questionnaires accounted for approximately 40 percent of the industry in terms of value of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Shipments of dining room tables and chairs had among the sharpest declines during the period in terms of quantity, while shipments of wall systems experienced the greatest growth rate, in terms of quantity and value, for the period.

Upholstered household furniture.--Both the quantity and value of U.S. producers' shipments of upholstered furniture increased in the period 1979-83, although on an irregular basis. Overall shipments in terms of quantity increased from 4.3 million units to nearly 5.0 million units in the period, while the value increased from $751 million to nearly $1 billion (table 17).

Table 17.--Upholstered household furniture: Certain U.S. producers shipments, by types, 1979-83 1/

Item	1979	1980	1981	1982	1983
	Quantity (1,000 units)				
Sofas, love seats, couches	902	806	793	747	932
Sleep sofas	234	203	197	194	243
Action chairs	2,472	2,310	2,166	2,111	2,517
Stationary chairs	538	342	804	737	1,041
Sectionals	155	151	154	202	191
All other	37	43	42	39	40
Total	4,338	4,055	4,156	4,030	4,964
	Value (million dollars)				
Sofas, love seats, couches	217	220	233	222	271
Sleep sofas	57	56	58	57	73
Action chairs	340	355	363	375	458
Stationary chairs	84	86	112	109	128
Sectionals	27	28	32	35	40
All other	26	24	25	20	19
Total	751	769	823	818	989

1/ Respondents to Commission questionnaries accounted for approximately 25 percent of the industry in terms of value of producers' shipments.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Shipments of action chairs (or recliners) accounted for the largest percentage of shipments in terms of quantity (51 percent in 1983) and in value (46 percent in 1983) for each of the years under consideration. Shipments of stationary chairs nearly doubled in terms of quantity for the period; nearly all categories of upholstered furniture showed increases in terms of both quantity and value from 1979 to 1983.

Factors affecting producers' shipments

A number of factors contributed to the weak performance of the domestic wood and upholstered household furniture industry during 1979-82. Primary reasons were the general economic downturn, causing a deterioration in disposable income, tightening of credit, high interest rates, and the lowering of inventories by retailers. Imports of certain household furniture--largely chairs, dining room furniture, occasional furniture, and wall systems--also grew during the period. The improved performance of this industry in 1983 was mostly due to the upturn in the U.S. economy, the availability of credit at

lower interest rates, growing consumer confidence in the viability of the U.S. economy, and a moderate increase in the level of retailer inventories.

Inventories

Producers' inventories of wood household furniture for questionnaire respondents increased by 12 percent for the period under consideration, rising to 2.7 million units in 1983, up from 2.5 million units at the beginning of 1979. For the upholstered household furniture industry, inventories declined slightly from 261,000 units in 1979, to 252,000 in 1983, as shown in table 18.

Table 18.--Household furniture: Inventories by selected wood and upholstered producers, by types, as of Dec. 31 of 1978-83

(In thousands of units)

Item	As of Dec. 31--					
	1978	1979	1980	1981	1982	1983
Wood:						
Dining tables	125	123	123	150	141	131
Dining chairs	543	549	560	619	623	596
Other dining furniture	159	153	182	185	183	170
Other chairs	17	22	19	35	31	35
Occasional tables	327	319	333	356	349	367
Bedroom furniture	1,119	1,124	1,116	1,328	1,199	1,205
Wall systems	48	59	67	93	95	100
All other	151	208	158	176	129	135
Total	2,489	2,557	2,558	2,942	2,750	2,739
Upholstered:						
Sofas, love seats, couches	40	39	41	39	32	44
Sleep sofas	9	7	8	7	7	9
Action chairs	73	65	66	109	89	75
Stationary chairs	125	154	82	131	133	110
Sectionals	2	3	3	4	4	4
All other	12	15	10	18	5	10
Total	261	283	210	308	270	252

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

The ratio of inventories for wood household furniture to U.S. producers, shipments for questionnaire respondents ranged from 13 percent at the beginning of 1979 to 16 percent in 1983, slightly lower than the furniture industry average of 18 to 20 percent. Upholstered furniture inventories were also low, ranging from 6 percent to 5 percent during the same time period, with an overall industry average of between 11 and 12 percent. General economic conditions during the period 1979-83 encouraged manufacturers to keep inventories lower than in the past.

U.S. Exports

U.S. exports of wood and upholstered household furniture averaged about 1.6 percent of total value of U.S. producers' shipments during 1979-83. Even with the reportedly growing interest by U.S. producers in developing foreign markets for their products, the value of U.S. exports declined during 1981-83. After increasing by 52 percent from $116 million in 1979 to $177 million in 1981, exports declined by 29 percent to $125 million in 1983 (table 19).

Table 19.--Wood and upholstered household furniture, and parts: U.S. exports of domestic merchandise, by principal markets, 1979-83

(In thousands of dollars)

Market	1979	1980	1981	1982	1983
Canada	51,805	52,299	59,689	32,559	41,933
Saudi Arabia	22,739	28,682	35,576	43,350	32,281
Bahamas	5,197	6,234	6,869	7,777	7,883
United Kingdom	3,904	10,884	14,665	8,459	5,945
Kuwait	1,340	1,248	2,619	3,221	3,438
Australia	2,503	2,698	5,050	4,524	3,023
Bermuda	1,117	2,399	2,053	3,609	2,722
Netherlands Antilles	2,001	2,049	2,245	3,251	2,368
All other	25,431	33,523	47,820	41,630	25,604
Total	116,037	140,017	176,586	148,380	125,196

Source: Compiled from official statistics of the U.S. Department of Commerce.

Owing principally to its proximity and market similarities, Canada consistently was the largest export market, accounting for about 34 percent of the value of total U.S. exports during the five-year period. 1/ The second largest market, Saudi Arabia, took about 23 percent of total exports during the period. Other leading markets were the Bahamas and the United Kingdom, which accounted for 6 and 5 percent, respectively, of total exports.

Wood household furniture

Setting the pattern of total U.S. exports of wood and upholstered household furniture during 1979-83, exports of wood household furniture, which accounted for about 80 percent of the total of such shipments in recent years, increased from $98 million in 1979 to $136 million in 1981. Such exports then decreased to $111 million in 1982 and $95 million in 1983 (table 20). Exports were 3 percent less in 1983 than in 1979. Canada and Saudi Arabia were the

1/ Currently, there is a bilateral agreement known as the "U.S.-Canadian Sectoral Free Trade Initiative" under consideration by the U.S. and Canadian governments; furniture is one of the sectors which may be included. The U.S. household furniture industry has indicated that it strongly supports such an initiative; however, negotiations are only in the exploratory stages.

Table 20.--Wood household furniture, and parts: U.S. exports of domestic merchandise, by principal markets, 1979-83

(In thousands of dollars)

Market	1979	1980	1981	1982	1983
Canada	45,244	46,005	52,387	27,576	34,781
Saudi Arabia	20,643	26,511	27,157	29,174	22,284
Bahamas	4,765	5,664	6,271	7,309	7,411
United Kingdom	2,936	8,082	7,563	5,503	3,912
Australia	2,404	2,524	4,659	4,225	2,876
Bermuda	911	2,303	1,905	3,332	2,177
Netherlands Antilles	1,724	1,776	1,878	2,661	1,898
Mexico	3,242	6,373	8,118	5,965	1,806
All other	16,150	19,859	25,660	24,789	17,600
Total	98,019	119,097	135,598	110,543	94,745

Source: Compiled from official statistics of the U.S. Department of Commerce.

largest markets, accounting for 59 percent of the total. Trailing these two, the Bahamas, the United Kingdom, and Australia combined for a 15 percent share of the total.

Upholstered household furniture

U.S. exports of upholstered household furniture increased from $18 million in 1979 to $41 million in 1981. Exports then fell to $30 million in 1983 (table 21). Such exports were 69 percent greater in 1983 than in 1979. In recent years, Saudi Arabia was the principal market, followed by Canada, the United Kingdom, and Kuwait.

Table 21.--Upholstered household furniture: U.S. exports of domestic merchandise, by principal markets, 1979-83

(In thousands of dollars)

Market	1979	1980	1981	1982	1983
Saudi Arabia	2,095	2,171	8,419	14,177	9,997
Canada	6,561	6,294	7,302	4,983	7,152
Kuwait	444	947	1,664	1,297	2,255
United Kingdom	968	2,802	7,102	2,956	2,034
France	215	68	1,517	1,595	1,152
Bermuda	205	96	148	278	546
Mexico	1,692	2,603	5,231	2,656	534
Bahrain	102	198	160	759	505
All other	5,732	5,742	9,445	9,147	6,280
Total	18,014	20,921	40,988	37,848	30,455

Source: Compiled from official statistics of the U.S. Department of Commerce.

Because of the recent economic conditions in the U.S. market, U.S. producers of wood and upholstered household furniture reportedly have shown increased interest in enlarging their export markets. To stimulate exports, several firms, mostly small- to medium-sized companies, are attempting to reduce freight costs by combining small shipments into single larger freight containers and by experimenting with shipping furniture on a KD basis. According to officials at the Department of Commerce, there have been some preliminary discussions with several furniture manufacturers and the Greensboro, N.C., International Trade Administration office concerning the possibility of establishing an export trading company 1/ for the furniture industry, although no action has yet been taken.

Exports of wood and upholstered household furniture by selected U.S. producers

Overall exports of wood and upholstered household furniture by respondents to the Commission's questionnaire increased slightly during the period 1979-83 from $28.0 million to $28.5 million, as shown in the following tabulation (in thousands of dollars):

Year	Wood	Upholstered	Total
1979	26,301	1,694	27,995
1980	29,205	3,059	32,264
1981	37,399	8,466	45,865
1982	21,492	5,315	26,807
1983	23,153	5,379	28,532

Canada was the primary market for such exports, followed by Saudi Arabia. Table 22 shows the primary export markets for U.S. producers and the share in terms of value, of exports, by specific types of furniture, to each market. Bedroom furniture and occasional tables were the primary items of wood household furniture exported, and stationary chairs and sofas, love seats and couches were the principal items of upholstered household furniture exported.

1/ The Export Trading Act of 1982 allows U.S. firms to combine their export efforts. The Act removed two major impediments to small- and medium-sized businesses joining in a cooperative arrangement: (1) the uncertain application of U.S. anti-trust laws to cooperative and other types of export activities; and (2) restrictions against bank participation in owning or investing in export trading companies (ETC's). ETC's assume the risks associated with international trade and enjoy the economies of scale which come from their volume of exports.

Table 22.--Share of U.S. exports of wood and upholstered household furniture by selected U.S. producers, by principal types, 1979-83

(In percent)

Market	Type	1979	1980	1981	1982	1983
Canada	Wood:					
	Bedroom furniture	50	49	45	43	45
	Occasional tables	12	14	16	26	24
	Dining chairs	13	12	12	11	9
	Upholstered:					
	Stationary chairs	21	20	89	80	51
	Action chairs	5	2	1/	1/	35
Saudi Arabia	Wood:					
	Bedroom furniture	66	32	30	29	30
	Occasional tables	11	24	19	19	20
	Upholstered:					
	Sofas, love seats, couches.	54	58	56	44	53
	Stationary chairs	32	37	32	34	24
Europe 2/	Wood:					
	Occasional tables	31	37	38	36	36
	Bedroom furniture	9	13	15	23	30
	Upholstered:					
	Sofas, love seats, couches.	56	63	63	61	61
	Stationary chairs	36	28	23	27	24
All other 3/	Wood:					
	Bedroom furniture	39	35	45	41	42
	Other dining furniture.	14	13	13	14	17
	Upholstered:					
	Stationary chairs	30	29	63	49	45
	Sofas, love seats, couches.	67	67	33	41	44

1/ Data have been withheld from publication to prevent the release of information about individual companies.

2/ The principal countries were England, France, and West Germany.

3/ The principal countries were Australia, the Bahamas, and other Caribbean countries.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission. Questionnaire respondents accounted for approximately 40 percent of the industry in terms of producers' shipments.

U.S. Imports

U.S. imports of wood and upholstered household furniture increased by 154 percent during 1979-83, from a value of $312 million to $795 million (table 23). Taiwan, Canada, Denmark, and Yugoslavia were consistently the largest sources during the period.

Table 23.--Wood and upholstered household furniture, and parts: U.S. imports for consumption, by principal sources, 1979-83

(In thousands of dollars)

Source	1979	1980	1981	1982	1983
Taiwan	61,186	96,628	122,049	138,311	203,880
Canada	40,548	56,013	65,659	76,426	101,889
Denmark	42,333	53,504	54,976	70,852	95,337
Yugoslavia	19,418	67,730	78,776	80,188	84,146
Italy	20,217	29,558	28,424	32,106	45,122
United Kingdom	28,871	32,072	32,244	31,812	38,852
Singapore	5,439	19,185	24,565	27,849	37,878
West Germany	12,275	11,725	14,944	17,850	25,583
All other	81,718	112,855	130,873	128,661	162,109
Total	312,005	479,270	552,510	604,055	794,796

Source: Compiled from official statistics of the U.S. Department of Commerce.

Imports from Taiwan

During 1979-83, U.S. imports of wood household furniture from Taiwan increased from a value of about $61 million to $202 million, or by 233 percent (table 24). Taiwan was the largest source of imports for such furniture and increased its share of total U.S. imports from 20 percent in 1979 to 26 percent in 1983.

Table 24.--Wood household furniture and parts: U.S. imports for consumption, by principal sources, 1979-83

(In thousands of dollars)

Source	1979	1980	1981	1982	1983
Taiwan	60,757	96,040	121,285	137,107	202,248
Denmark	42,097	53,262	54,785	70,587	94,871
Canada	37,573	53,505	62,846	71,833	94,717
Yugoslavia	19,417	67,729	78,743	80,128	84,097
Italy	19,357	28,588	27,647	31,452	43,943
United Kingdom	28,810	31,982	32,151	31,778	38,763
Singapore	5,438	19,178	24,562	27,847	37,860
West Germany	12,198	11,611	14,746	17,560	25,128
All other	80,395	111,518	129,737	127,349	160,089
Total	306,042	473,413	546,502	595,641	781,716

Source: Compiled from official statistics of the U.S. Department of Commerce.

A considerable portion of the imports from Taiwan consisted of KD furniture, the bulk of which was finished parts and partially assembled components. One of the primary suppliers of KD wood household furniture from Taiwan has five regional assembly facilities in the United States located in major metropolitan areas and ships directly to these facilities from its plants in Taiwan and other Far Eastern locations. Several companies are also suppling KD furniture to U.S. wood household furniture manufacturers in increasing quantities.

Wood household furniture from Taiwan ranges from the lower to upper end price ranges, with an increasing percentage concentrated in the medium to upper price ranges. Reportedly, the Taiwan manufacturers had difficulty over the years achieving a quality level competitive with U.S. products and acceptable to the U.S. consumer. However, in the past 3 to 5 years, according to both producers and importers, the larger manufacturers in Taiwan have markedly improved the quality of their furniture particularly their finishes. These manufacturers are competing successfully in the mid-price ranges and are moving into the more expensive price points. In addition to being competitively priced, Taiwan furniture is available in a variety of popular styles, including Colonial, Traditional, 18th Century, and Contemporary.

U.S. imports of upholstered household furniture from Taiwan increased by 284 percent, from $432,000 in 1979 to $1.7 million in 1983, accounting for about 13 percent of the total of such imports in recent years (table 25). U.S. imports of upholstered furniture from Taiwan have remained relatively small, as much of the furniture is believed to be cushions and upholstered parts for wood furniture.

Table 23.--Upholstered household furniture: U.S. imports for consumption, by principal sources, 1979-83

(In thousands of dollars)

Source	1979	1980	1981	1982	1983
Canada	2,982	2,510	2,836	4,640	7,239
Taiwan	432	596	776	1,219	1,658
Italy	875	984	783	664	1,187
Denmark	251	258	197	273	477
West Germany	79	116	203	301	459
Mexico	420	239	316	484	394
Republic of Korea	20	102	46	67	354
Japan	318	116	200	123	328
All other	653	1,036	751	792	1,156
Total	6,030	5,957	6,108	8,563	13,252

Source: Compiled from official statistics of the U.S. Department of Commerce.

Imports from Canada

During 1979-83, the value of U.S. imports of wood household furniture from Canada rose by 152 percent, from $38 million to $95 million, and accounted for about 12 percent of total imports during the period (table 24). Imports consisted of unassembled furniture as well as completely finished pieces, encompassing all the different types of furniture covered in this study. In terms of quality and price, the furniture ranges from the lower to upper end, although according to industry sources, the quality of furniture from Canada is generally good and comparable with that of U.S.-produced furniture.

The value of U.S. imports of upholstered household furniture from Canada rose by 143 percent, from about $3 million in 1979 to $7 million in 1983, and accounted for about 50 percent of total such imports (table 25). The proximity of Canada to the U.S. market and the special order nature of purchasing upholstered furniture accounts for Canada's position as the predominant source of upholstered household furniture.

Imports from Denmark

U.S. imports of wood household furniture from Denmark consisted mostly of the uniquely styled, contemporary, Scandinavian-type furniture that is produced only in small quantities in the United States.

During 1979-83, imports of wood household furniture from Denmark increased by 125 percent, from about $42 million to $95 million, accounting for about 12 percent of the total of such imports during the period (table 24). The bulk of the Danish household furniture consisted of living room, dining room, bedroom, and occasional furniture and wall systems. Chairs of teak and other chairs accounted for about 9 percent of total imports from Denmark.

Most of the Danish wood household furniture imported into the United States consists of the KD type. Several of the principal importers, which are retail chains, assemble the KD furniture in a number of regional assembly plants. However, some KD furniture is constructed so that it can be purchased directly and assembled by the consumer.

Imports of upholstered furniture from Denmark increased by 90 percent, from $251,000 in 1979 to $477,000 in 1982 (table 25). Because of high shipping costs, most of the Scandinavian type upholstered furniture sold in the United States is produced here.

Imports from Yugoslavia

U.S. imports of wood household furniture from Yugoslavia increased by 334 percent, from about $19 million in 1979 to $84 million in 1983 (table 24). Yugoslavia's share of total such imports grew from about 6 percent in 1979 to 14 percent in 1981 and then declined to 11 percent in 1983.

KD furniture represented the largest share of total imports of wood household furniture from Yugoslavia. The single largest type of furniture imports from Yugoslavia consisted of chairs other than teak (mostly Early American-type chairs and rockers). Parts of wood household furniture accounted for an important share of the total.

The bulk of Yugoslavian KD furniture is assembled in the United States in strategically located regional assembly plants, some of which are jointly owned by Yugoslavian and American business interests.

Imports under the Generalized System of Preference. 1/

U.S. imports of wood and upholstered household furniture entered under the provisions of the GSP accounted for an important, but declining, share of total imports of these products during 1979-83. In this connection, GSP imports accounted for 74 percent of total imports in 1979 but declined to 37 percent by 1983 (table 26).

1/ The GSP is a program of nonreciprocal tariff preferences granted by the United States to developing countries to aid their economic development by encouraging greater diversification and expansion of their production and exports. The GSP, implemented by Executive Order No. 11888, of Nov. 24, 1975, applies to merchandise imported on or after Jan. 4, 1976. It provides for duty-free treatment of eligible articles imported directly from designated beneficiary developing countries.

Table 26.--Wood and upholstered household furniture and parts: U.S. imports under the GSP, total U.S. imports, and ratio of U.S. imports under the GSP to total U.S. imports, 1979-83

Year	Imports under the GSP	Total imports	Ratio of imports under the GSP to total imports
	Millions of dollars		
1979	230	312	74
1980	220	479	46
1981	237	553	43
1982	246	604	41
1983	293	795	37

Source: Compiled from official statistics of the U.S. Department of Commerce.

In 1979-83, Taiwan and Yugoslavia were the principal suppliers of GSP imports, each averaging about 30 percent of total such imports during the period. Virtually all furniture imports included in this study entered under the provisions of TSUS items 727.35 and 727.29. Taiwan, the principal supplier of all imports under item 727.35 (furniture of wood), lost GSP eligibility for this item in 1980 for reasons of competitive need and has not regained GSP eligibility. However, the loss of GSP status has had no noticeable impact on total imports from that country. Yugoslavia has traditionally been the principal source for imported chairs under TSUS item 727.29; it lost GSP eligibility in 1983, also for reasons of competitive need. 1/ Although only a fraction of upholstered furniture (that made of cotton), enters under TSUS item 727.70 (a basket provision, including mostly furniture of metal), Taiwan lost GSP eligibility for this item in 1982, again for reasons of competitive need. Other important GSP sources for wood and upholstered furniture during 1979-83 included Singapore, Korea, Romania, and Mexico. Although the two principal sources of GSP imports, Taiwan and Yugoslavia, lost GSP eligibility for most of the items of which they were the most important suppliers during the period, overall imports under the GSP have continued to account for a significant share of total imports of wood and upholstered household furniture.

Imports under item 807.00. 2/

Imports of wood and household furniture entered under TSUS item 807.00 were insignificant during 1979-83, accounting for less than 1 percent of total imports during the period. Because of the high cost of shipping components parts to foreign countries for assembly and subsequent reentry into the United States, the domestic wood and upholstered household furniture industry has not found the use of this provision advantageous.

1/ Yugoslavia regained GSP eligibility for TSUS item 727.29 on Apr. 1, 1984. Taiwan lost GSP eligibility for item 727.29 effective Apr. 1, 1984.

2/ TSUS item 807.00 provides that duty on articles assembled abroad of U.S.-fabricated components be applied to the full value of the imported articles less the value of the U.S.-made components, or what is essentially the value added abroad.

Wood household furniture and parts

U.S. imports of wood household furniture, which during the period accounted for 99 percent of total imports of the furniture discussed here, increased without interruption from $306 million in 1979 to $782 million in 1983, or by 156 percent (table 24). The principal sources of imports were Taiwan, Denmark, Canada, and Yugoslavia. Their aggregate share of the value of total imports grew from 52 to 61 percent during 1979-83.

Historically, the most important single factor in limiting imports of wood household furniture has been the relatively high cost of transportation. Although certain furniture items may not be excessively heavy, these articles, in shipping containers, are generally of substantial bulk--an important factor in freight cost. More recently, foreign manufacturers, particularly those in Taiwan and Denmark, and, to a lesser extent, Yugoslavia, have adopted and perfected their ability to ship furniture parts KD for final assembly by company representatives or retailers in the purchasing country. These manufacturers have successfully used virtually all available space in shipping containers and have significantly reduced transportation costs. As a result, imports from these three countries have been marketed extensively in the United States. Imports of wood household furniture from Canada, which are also frequently shipped KD, are not limited exclusively to these easily assembled items, since long-distance shipment over water and land areas is not a major factor. Consequently, Canadian manufacturers can assemble most items at their factories in Eastern Canada and transport their wood household furniture at a competitive price to many U.S. markets.

Imports of wood household furniture and parts by respondents to the Commission's questionnaire

The following information was obtained from data submitted in response to questionnaires of the U.S. International Trade Commission; the respondents to the questionnaires accounted for about 27 percent of total imports of wood and upholstered household furniture in 1979 and 24 percent in 1983. Included among the respondents were many large producers, as well as a number of small- to medium-sized companies; consequently, these data are believed to be representative of the industry as a whole.

The value of imports of wood household furniture and parts, as reported by questionnaire respondents, increased from $85 million in 1979 to $190 million in 1983, or by 123 percent, with, by far, the larger share accounted for by U.S. importers (table 27).

Table 27.--Wood household furniture, and parts: U.S. imports, by selected U.S. importers and by U.S. producers, 1979-83

(In thousands of dollars)

Year	U.S. importers	U.S. producers	Total
1979	80,631	4,321	84,952
1980	92,273	6,269	98,542
1981	133,260	6,363	139,623
1982	130,412	8,064	138,476
1983	171,014	19,124	190,138

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Imports by importers.--Imports of wood furniture and parts by U.S. importers increased in terms of value during 1979-83, from $80.6 million to $171.0 million, or by 112 percent, roughly paralleling the same upward spiral as total imports of these articles. The largest category in 1983 was dining chairs, representing 30 percent of the total, followed by other chairs, 18 percent. Imports of dining tables, which showed one of the greatest growth rates both in terms of quantity and value, represented approximately 15 percent of imports in 1983 (table 28).

Table 28.--Wood household furniture: U.S. imports by selected U.S. importers, by types, 1979-83

Type	1979	1980	1981	1982	1983
	Value (1,000 dollars)				
Dining tables	5,768	7,157	9,069	16,028	23,095
Dining chairs	34,578	36,760	50,471	41,320	48,247
Other dining furniture	9,133	9,144	13,017	12,690	19,387
Other chairs	12,095	17,449	26,032	23,540	28,148
Occasional tables	906	1,244	4,431	3,582	10,272
Bedroom furniture	3,374	4,074	4,951	6,673	8,799
Wall systems	3,320	4,267	6,681	9,615	9,848
All other	3,658	3,657	5,200	6,838	10,810
Total	72,832	83,752	119,852	120,286	158,606
	(Percent of total)				
Dining tables	7.9	8.5	7.6	13.3	14.6
Dining chairs	47.6	43.9	42.1	34.4	30.4
Other dining furniture	12.5	10.9	10.9	10.5	12.2
Other chairs	16.6	20.8	21.7	19.6	17.8
Occasional tables	1.2	1.5	3.7	3.0	6.5
Bedroom furniture	4.6	4.9	4.1	5.5	5.5
Wall systems	4.6	5.1	5.6	8.0	6.2
All other	5.0	4.4	4.3	5.7	6.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

The value of parts imported by U.S. importers increased by 59 percent from 1979 to 1983, from $7.8 million to $12.4 million, as shown in the tabulation below, which was compiled from questionnaire data (in thousands of dollars:

1979	7,787
1980	8,521
1981	13,408
1982	10,126
1983	12,408

The value of such imports fluctuated after peaking in 1981. The bulk of these imports were parts for dining room furniture, either chairs or tables.

Principal sources for wood furniture and parts imported by U.S. importers were Taiwan, Yugoslavia, and Singapore, as these countries concentrated on increasing their exports to the United States during 1979-83, particularly in

the dining room area, since these pieces are the easiest and least expensive to ship KD.

Imports by U.S. producers.--U.S. producers increased their efforts at importing directly, as their imports of wood furniture (including parts) increased significantly during 1979-83, from $4.3 million to over $19.1 million (table 27). Occasional tables represented the largest category in terms of value in 1983, accounting for 44 percent of total imports, and dining chairs accounted for 29 percent. In terms of quantity, in 1983, dining chairs accounted for the largest share (60 percent), followed by occasional tables (28 percent).

Imports of parts of wood furniture by U.S. producers nearly doubled in 1983 compared with 1979, from $3.7 million to $6.7 million. Parts imported for dining tables declined over the period from $1.9 million to $1.4 million, while parts for all other furniture increased sharply, from $1.8 million to $5.3 million. The principal sources of imported parts by U.S. producers were Taiwan, Singapore, and Italy. These data represent a growing trend in the wood household furniture industry as more U.S. producers move towards importing as a means to reduce labor costs and remain competitive.

Table 29.--Parts for wood household furniture: U.S. imports by selected U.S. producers, by types, 1979-83 1/

(In thousands of dollars)

Type	1979	1980	1981	1982	1983
Parts for dining chairs	1,898	1,470	1,482	1,735	1,448
Parts for all other furniture	1,818	2,220	1,384	2,019	5,258
Total	3,716	3,690	2,866	3,804	6,706

1/ Data have been withheld from publication to prevent the release of information about individual companies.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Upholstered household furniture and parts

Imports of upholstered furniture rose by 118 percent, from a value of about $6 million in 1979 to $13 million in 1983 (table 25); the bulk of this increase occurred from 1982 to 1983, when imports increased by 55 percent. Canada consistently supplied about 50 percent of the total value of imports, with Taiwan and Italy a distant second and third, respectively.

Imports of upholstered household furniture and parts by respondents to the Commission's questionnaire

The value of U.S. imports of upholstered household furniture and parts rose from $3.5 million in 1979 to $10.3 million in 1983, with U.S. importers accounting for about 65 percent of these imports, as shown in table 30.

Table 30.--Upholstered household furniture and parts: U.S. imports, by importers and by producers, 1979-83 1/

(In thousands of dollars)

Year	U.S. importers	U.S. producers	Total
1979	2,460	1,085	3,545
1980	3,172	1,226	4,398
1981	4,475	2,307	6,782
1982	4,807	2,823	7,630
1983	5,861	4,409	10,269

1/ U.S. importers did not report any imports of parts for upholstered household furniture.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission. Questionnarie respondents accounted for approximately 40 percent of the industry in terms of value of U.S. producers' shipments.

Imports by U.S. importers.--During 1979-83, the value of U.S. imports of upholstered household furniture by importers grew from about $2.5 million to $5.9 million, or by 138 percent. In terms of value, imports of sofas, love seats, and couches were the largest category in 1983, accounting for almost 39 percent of the total; this group of upholstered household furniture also experienced the greatest growth rate in terms of quantity and value during 1979-83. In terms of value, action chairs were the second largest category of imports for the same period, as shown in table 31.

Table 31.--Upholstered household furniture: U.S. imports by U.S. importers, by types, 1979-83

Type	1979	1980	1981	1982	1983
	Value (1,000 dollars)				
Sofas, love seats, couches	837	1,078	1,347	1,703	2,270
Action chairs	893	978	1,046	1,148	1/
Stationary chairs	441	499	609	697	1/
Total upholstered household furniture parts 2/	2,460	3,172	4,475	4,807	5,861
	Percent of total				
Sofas, love seats, couches	34.0	34.0	30.1	35.4	38.7
Action chairs	36.3	30.8	23.4	23.9	1/
Stationary chairs	16.7	15.7	13.6	14.5	1/
Total upholstered household furniture parts 2/	100.0	100.0	100.0	100.0	100.0

1/ Certain data have been withheld from publication to prevent the release of information about individual companies.

2/ Data for sleep sofas, stationary chairs, sectional furniture, and other upholstered household furniture have been withheld from publication to prevent the release of information about individual companies.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

During 1979-83, Canada was consistently the largest source of imported upholstered household furniture; in 1983, Canada accounted for 48 percent of the total, followed by Italy (11 percent) and Denmark (6 percent).

Imports by U.S. producers.--Imports of upholstered household furniture and parts by U.S. producers more than tripled during 1979-83, from $1.1 million to $4.4 million (table 30). In terms of value, imports of parts for sofas, love seats, couches, and sleep sofas accounted for over 50 percent of total U.S. imports of upholstered household furniture by U.S. producers in 1983, and also experienced the greatest growth in recent years. Although imports of upholstered household furniture by U.S. producers during 1979-83 were small in terms of the entire upholstered household furniture market, the tripling of such imports does indicate an increasing tendency among U.S. producers to import certain parts of such furniture.

The principal sources of parts for upholstered household furniture were Taiwan, Spain, and the Philippines. The increase in the importation of upholstered furniture parts by U.S. producers reflects their desire to obtain certain parts at a lower cost than they can produce them; but most industry sources do not expect this development to become a major factor in the upholstered furniture market.

CONDITIONS OF COMPETITION

The United States is the world's largest market for wood and upholstered household furniture products. In addition to a large and fiercely competitive domestic industry, practically every country with any household furniture industry at all does some exporting to the United States. The last 5 years have seen increases in household furniture imports, particularly wood furniture, as imports of certain wood furniture items increased their market share to an estimated 15 to 20 percent. The import penetration for specialized segments of the industry, such as dining room tables and chairs, may be as high as 30 percent, with this percentage going even higher in certain price points.

The competition that exists in the U.S. marketplace between domestically produced wood and upholstered household furniture and that produced in foreign countries 1/ is influenced by a variety of factors. The most important factors are price, quality, marketing capability, to a lesser degree the cost of raw material and technology level, and the extent of Government involvement. Each of these factors is discussed below.

Price

Probably the single most important factor in the marketplace regarding the purchase of furniture is price. Because most furniture items represent a major purchase for the average consumer, the final price usually is the determining element in the selection of a household furniture item.

Imports of foreign-produced furniture, especially that from the Far East, is generally priced lower than comparable domestically made items. These products can be sold at less than the U.S. price, because the cost of manufacturing abroad is much lower, reflecting the significantly lower cost of labor. Listed below are average hourly labor costs for production workers in all manufacturing for Canada, Taiwan, and Denmark. The costs for the United States were included for comparative purposes; the average labor costs listed here are significantly higher than the average for furniture production workers. This is also believed to be the case for the other data given 2/

1/ These countries include Taiwan, Canada, Denmark and Yugoslavia, the principal sources of U.S. imports of wood and upholstered household furniture.

2/ U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, April 1983. Yugoslavia was not included in this comparison.

Hourly compensation costs for production workers in manufacturing from selected countries in U.S. dollars 1979-82

	1979	1980	1981	1982
United States----	9.07	9.91	10.96	11.79
Canada----------	8.16	8.98	9.87	10.77
Taiwan----------	1.01	1.27	1.51	1.57
Denmark---------	10.05	10.52	9.12	8.64

Taiwan is, by far, the principal supplier of wood household furniture from the Far East to the United States; other sources include Korea, Hong Kong, and Singapore. Each has a definite advantage in the cost of labor, an important factor in a labor-intensive industry. Even though most major plants in Taiwan employ approximately the same number or slightly more employees than a comparable U.S. furniture plant, lower labor costs combined with the relative absence of benefits more than offsets any advantage that U.S. producers may have in terms of lower transportation costs. Many U.S. furniture producers as well as importers contend that furniture imported from Taiwan costs an average of 20 to 30 percent less than comparable U.S.-produced furniture. Furniture from the other Far Eastern countries also enjoys a similar price advantage. For this reason, many U.S. retailers are turning increasingly to imported goods, particularly in the low-end or promotional price points.

The price advantage enjoyed by Far Eastern suppliers is not as significant for other major sources of U.S. imports of wood and upholstered household furniture. Although Yugoslavia also benefits from the advantage of lower cost labor--the wages of which are regulated by the government--its advantage in this area is less pronounced than that of the Far Eastern countries. In an effort to attract more hard currency, the Yugoslavian Government strongly encourages the export of furniture. According to industry observers, each Yugoslavian furniture factory is examined individually and must show that it is producing efficiently and realizing some "profit."

Furniture from Canada and Denmark are more comparably priced with similar quality U.S.-produced furniture, since the factors of production are not significantly different in these two countries.

Exchange-rate changes appeared to have beneficially affected product pricing of foreign industries during 1980-83. The currencies of most major suppliers of U.S. imports exhibited declines against the U.S. dollar during that period; these currency declines contributed to the strengthening of the competitive position of foreign produced furniture in the U.S. market. Table 32 lists the average exchange rates for the principal competitors in wood and upholstered household furniture:

Table 32.--Average exchange rates for principal foreign competitors in terms of the foreign currency per U.S. dollar, 1979-83

Year	Taiwan (dollars)	Canada (dollars)	Denmark (dollars)	Yugoslavia (dollars)
1979	36.03	1.1681	5.3650	19.163
1980	36.01	1.1947	6.0150	29.297
1981	37.84	1.1859	7.3250	41.823
1982	39.91	1.2294	8.3840	62.487
1983	40.26	1.2444	9.8750	125.673

Source: International Monetary Fund, International Financial Statistics, the fourth quarter for each year was used for comparative purposes; for Taiwan, information was obtained from the Embassy of Taiwan.

The currency of Taiwan depreciated by 11.8 percent against the U.S. currency during 1979-83, and that of Canada depreciated by 6.5 percent in the period. Danish exchange rates depreciated by 84.0 percent as compared with U.S. rates during 1979-83, and those for Yugoslavia dropped by 555.8 percent against the U.S. dollar. As the U.S. dollar appreciated in value during 1979-83, less expensive imports were priced even more competitively. Additionally, the exchange-rate difference and lower cost of imported furniture was even more apparent at the retail level.

Product Quality

Furniture quality, which for wood household furniture is principally determined by type and amount of wood used, type of construction such as gluing, screwing, and nailing, amount of carving and/or 'fancy-face' veneering, and final finish, is another important competitive factor in the market place. Industry analysts indicate that U.S. producers have traditionally held an advantage in terms of quality over wood household furniture produced in the Far East and other developing countries, but that this is changing. Furniture from Taiwan and Yugoslavia has improved in quality in the past 2 to 3 years, and both countries are working to continually improve their quality, particularly in terms of finishing operations. Currently, U.S. producers as well as importers acknowledge that the quality of imports varies greatly from plant to plant and even from production run to production run. Most companies that import regularly from the Far East maintain a permanent quality control representative in the source country or they send one over on a regular basis. Because of the distances involved, it is extremely difficult to return defective merchandise. As a result, many U.S. manufacturers that import as well as traditional importers, maintain touchup areas where some of the problems can be resolved. Several industry sources have predicted that rapidly improving quality in the Far East in the next several years will cause the United States to lose its remaining advantage in this area.

As Taiwan and other Far Eastern countries have improved their quality, they have also upgraded the price points at which they target their furniture. Originally, imports from the Far East were sold almost exclusively

in the low end through mass merchandisers and discount stores. Traditional furniture stores and department stores generally did not carry these imported items. Within the last 5 years, primarily because of the strides made in quality improvement and the popular styles being offered, many retailers indicated that imported furniture from the Far East is stocked by virtually every major furniture retailer, regardless of store type. The bulk of this furniture is still in the lower to middle price points. However, several foreign manufacturers, particularly the large ones in Taiwan, reportedly have begun to move into the upper middle price points. Although only representing a small share of total imported furniture in 1983, these companies have reportedly been competing quite well and may eventually increase their shipments of higher quality, more costly furniture.

Many U.S. manufacturers agree that imports from Yugoslavia are generally of a lower quality than comparable U.S.-produced furniture. The Yugoslavs concentrate on Early American dining chairs and rocking chairs and compete principally in the lower price points. Their quality also varies greatly from region to region, and their finishing operations are not as sophisticated as those in Taiwan, although these are also improving. The U.S. manufacturers indicate that the overall quality of Yugoslavian-produced furniture is still somewhat lacking and that the U.S. industry currently enjoys a competitive advantage.

Household furniture from Canada has traditionally been of a quality consistent with that produced in the United States and is imported in a wide range of price points. The only significant amounts of imported upholstered furniture are from Canada, and industry sources state that there is no qualitative advantage for either Canadian or U.S.-produced furniture in any of the price points compared or for either wood or upholstered household furniture.

Danish furniture has long been known to be of high quality, comparable with that produced in the United States or elsewhere in the world. Additionally, the Danes concentrate on lines for which they have acquired a solid reputation, such as contemporary teak and oak, that provide large amounts of storage without requiring much space. For a number of years, this furniture was considered rather unique to the Scandinavian countries and to Western Europe, and most U.S. manufacturers simply did not produce furniture of the same style. Recently, a number of U.S. companies have added teak lines because of the style's continued and increasing popularity. The bulk of this contemporary furniture is at the mid-price points, and no one enjoys a real competitive advantage in terms of quality.

U.S. manufacturers enjoy a competitive advantage in terms of brand name identification. Many U.S. companies have cultivated their image with regards to quality, particularly in the upper price points. Due to heavy advertising and dealer encouragement and explanations, most consumers are familar with several of these brand names and the quality reputation. Consequently, as consumers decide to acquire furniture items, they are generally conscious of domestic brand names at particular price points. As of yet, most consumers are not aware of the names of any foreign manufacturers and often make their selection of imported furniture almost totally on the basis of price and apparent quality.

Marketing Techniques

The U.S. industry had a competitive advantage over foreign furniture producers in most facets of marketing during 1979-83. Those advantages were most pronounced with respect to channels of distribution, responsiveness to orders, and dealer-supplier relationships.

The principal marketing technique used by U.S. producers is the use of semiannual shows (also known as furniture "markets"). The most important of these are held in April and October in High Point, N.C. Practically all U.S. producers maintain showroom space either in the downtown marketing centers or in the High Point area. Other regional shows are also held in Dallas, Atlanta, Minneapolis, Los Angeles, and San Francisco. Most new product lines are introduced during one of the North Carolina shows; the large manufacturers may introduce 15 to 20 new suites with each suite containing 20 to 30 individual pieces. Most of these pieces are made specifically for the furniture markets; if sales warrant, they will be placed into production runs. For many years, these markets showcased primarily the products of U.S. companies. Recently, most major foreign manufacturers have obtained space, particularly at High Point, and have entered the mainstream of American furniture marketing. Major household furniture producers, domestic as well as foreign, also advertise in trade-related publications to reach retailers. The retailers then use the local media, and various promotional efforts coordinated with manufacturer to reach the consumer.

Recently, a number of persons associated with the furniture industry have questioned the necessity of holding as many furniture markets, particularly the two national shows held in High Point. The ultimate expense of preparation for, and attendance at, these shows has been questionned by many in the industry. Many of the changes American furniture producers make, the constant desire for something "new," are dictated by the retailers and enhanced by the extremely competitive nature of the U.S. industry. The average furniture consumer is unaware of the majority of these stylistic changes. Foreign manufacturers attend these markets but reportedly do not put quite as much effort into them as U.S. producers. According to industry sources, a major company in Taiwan has concentrated on introducing a limited number of styles or suites per market after careful market research. This company concentrates on potential successful sellers, as opposed to many U.S. companies that spend large sums introducing a variety of new products whose ultimate success in the marketplace is questionable. This technique has been important in reducing the marketing and design costs of importers.

Another important factor in the sales and marketing of furniture is the cost of packaging and transporting of frequently bulky and often heavy items. Industry sources have indicated that these expenses can vary extensively as a percentage of the total cost of manufacturing. For many years, the U.S. industry had an advantage in this area, as shipping costs over long distances were prohibitive. Recently, many foreign manufacturers, particularly those in Taiwan and the Far East, have devised methods to significantly lower their transportation costs. Foreign producers often ship their KD furniture in 40-foot containers, using maximum available space. Reportedly, the cost of ocean freight for these containers is about $2,600 for shipment between Taiwan and Los Angeles. This represents about 9 to 10 percent of the value of the unassembled furniture in the container. These cartons of furniture parts may

then be shipped to regional assembly plants located in major population centers such as Los Angeles, Dallas, Chicago, Atlanta, and the New York metropolitan area. These furniture parts are assembled at the regional locations for final shipment to retailers. After assembly in the United States, the transportation costs for imported furniture are essentially the same as those for U.S. producers. Because of the reduced ocean shipping charges per item due to compacted shipment, foreign manufacturers have now lowered their overall transportation costs to a range that is similar to that for domestic producers.

Most U.S. manufacturers have not found it efficient or cost effective to operate a regional distribution system and prefer to centralize their production and assembly operations. Many U.S. companies maintain their own fleet of trucks to insure quick and safe shipment of upholstered furniture to retailers. Most companies use private transportation lines for the shipment of wood furniture with payment of transportation occasionally used as a selling point. The deregulation of the U.S. trucking industry has aided the furniture industry, especially those with their own fleets, because trucks are permitted to back-haul goods, thus reducing final transportation costs.

The U.S. industry reportedly has an advantage regarding responsiveness to orders. This factor has become increasingly important since the recession in the United States during 1981 and 1982. Historically, furniture retailers carried large inventories so as to be prepared for quick customer shipment. Faced with the high interest rates during 1981 and 1982, many furniture retailers were squeezed financially, and some went out of business; as a result, there has been a major shift in the maintenance of inventories. Retail stores now keep a limited inventory, expecting furniture manufacturers to deliver products expeditiously. Most furniture producers have adjusted to the current system and have attempted to improve their shipping techniques and reduce the turnaround time for orders from retailers.

Foreign furniture producers, also affected by this shift in the burden of inventories, are at a clear disadvantage. Lead times from placing orders to shipments received may be several months, since great distances, including ocean shipping, are often involved. Efforts to resolve this problem include maintaining warehouses in the United States, although often it is difficult to predict what style and pieces should be kept in inventory.

A final advantage lies in the historic dealer-supplier relationship between furniture producers and their retail customers. In many cases, these business relationships have endured for several generations, creating strong loyalties. However, because foreign producers are improving quality, holding the line on price, and marketing aggressively, this slight advantage of U.S. manufacturers is gradually disappearing.

Technology Level and Cost of Raw Materials

Production technology in the U.S. industry has remained relatively stagnant over the past 5 years, with improvements being made on a random basis by the industry. There is limited use of robots and some use of computers in both the production line and, more extensively, in service functions such as payroll, inventory, and production planning.

According to industry observers, the furniture industry in Denmark is among the most advanced in the world, with that in Canada at approximately the same level with the industry in the United States regarding the use of modern machinery or equipment. Most large furniture manufacturers in Taiwan and, to a lesser extent, Yugoslavia also use essentially the same equipment as the U.S. industry. The smaller plants in the Far East and Yugoslavia tend to be less advanced technologically, preferring to rely on abundant supplies of low-cost labor to perform most manufacturing operations.

Many industry sources have noted that technology is currently available, especially in the form of computers and advanced woodworking equipment, that would enhance production efficiency; however, this equipment is generally not widely used yet, either in the United States or abroad. Consequently, the U.S. industry is not considered at this time by most industry sources to have any significant advantage vis-a-vis that of most foreign producers in terms of technology level.

The costs of raw materials vary somewhat from country to country with no country having a significant advantage in this area. The U.S., Canadian, and Yugoslavian industries use materials principally from within their respective countries. Denmark imports most wood products, and Taiwan and other Far Eastern countries import the bulk of the raw materials, especially wood veneers and finishing materials. Although the Far Eastern countries must pay a larger percentage of their manufacturing costs for materials, their advantage in the cost of labor more than offsets the other additional costs.

Government Involvement

U.S. household furniture producers report that foreign producers have a competitive advantage in Government policies and regulations which are designed to facilitate exports to the U.S. market. The countries that were cited as benefiting most from these Government policies were Taiwan, Korea, and other Far Eastern countries and Yugoslavia. In addition to the varied favorable policies and financial encouragement alleged by the domestic industry that are given by some national governments, a big advantage is enjoyed by foreign producers that relocated in so called tax havens such as the British Virgin Islands (where tax rates are much lower than in the United States). The U.S. industry has voiced concern about the increasing financial burden of meeting U.S. regulatory requirements, which industry representatives believe put the U.S. industry at a competitive disadvantage.

Available information on tariffs suggests that the rates of duty on imports of household furniture into the United States are generally lower than similar rates of our major trading partners. For example, U.S. rates of duty on wood furniture are 3.8 percent ad valorem; those for Canada are 17.5 percent ad valorem, and those for Taiwan are 100 percent ad valorem.

Further, U.S. rates of duty are applied against the Customs value of imports, which does not include charges for freight, insurance, and other charges incurred in transporting merchandise from the port of exportation to the port of importation. Foreign tariff rates are usually applied against the c.i.f. value of imports which does include such charges. Hence, numerically equivalent foreign and U.S. tariff rates are not actually equal.

Competitive Assessment by U.S. Producers and Importers

The following assessment by U.S. producers and importers of wood and upholstered household furniture shows that the overall competitive advantage in the U.S. market between imported and domestically produced furniture varies from country to country and from product to product, as shown in tables 33 and 34.

Table 33.--Assessment by U.S. producers and importers of the overall competitive position of U.S.-made wood household furniture and parts versus foreign-made products in the U.S. market, by types, 1979-83

Types	Average rating 1/ of the overall competitive advantage of U.S.-made wood household furniture and parts versus products made in--			
	Taiwan	Denmark	Canada	Yugoslavia
Dining tables	1.9	2.0	2.9	2.5
Dining chairs	1.4	1.9	2.9	1.5
Other dining furniture	2.3	2.0	2.8	2.5
Other chairs	1.6	1.9	3.0	1.4
Occasional tables	1.3	2.1	3.0	2.1
Bedroom furniture	2.4	1.9	2.3	2.6
Wall systems	2.3	1.9	-	2.1
Other wood household furniture	2.3	2.0	-	3.0

1/ The questionnaire respondents listed the competitive advantage as being "domestic," "foreign," or "same." A score of 3 was assigned to a domestic advantage, 2 to same, and 1 to a foreign advantage. An average rating close to 3.0 indicates that a consensus of the respondents listed a domestic advantage; the closer that the average rating is to 1.0, the greater the consensus is toward a foreign advantage.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

For wood household furniture, Taiwan had the competitive advantage in terms of dining tables, dining chairs, other chairs and occasional tables; for the other products, the advantage was held by the domestic industry. Denmark and the United States were rated as being approximately equal for virtually all products under consideration. Domestically-made products were considered by virtually all importers and producers to have a competitive advantage vis-a-vis that of products imported from Canada. Dining chairs and other chairs from Yugoslavia were considered to have a competitive advantage over comparable domestic products; occasional tables and wall systems from Yugoslavia were considered to be comparable with the U.S.-made products, but the U.S. industry was considered to have the overall competitive advantage for dining tables, dining furniture other than tables and chairs, bedroom furniture, and miscellaneous wood household furniture, most of which is imported only in small quantities from Yugoslavia.

Table 34.--Assessment by U.S. producers and importers of the overall competitive position of U.S.-made upholstered household furniture and parts versus foreign-made products in the U.S. market during 1979-83, by types

Types	Average rating 1/ of the overall competitive advantage of U.S.-made upholstered household furniture and parts versus products made in-- 2/		
	Canada	Taiwan	Denmark
Sofas, love seats, and couches	1.8	3.0	2.7
Sleep sofas	2.5	3.0	2.6
Action chairs	2.3	2.8	2.2
Stationary chairs	2.0	2.7	2.7
Sectional furniture	2.2	3.0	2.6
Other upholstered household furniture	2.8	3.0	3.0

1/ The questionnaire respondents listed the competitive advantage in each factor as being "domestic," "foreign," or "same." A score of 3 was assigned to a domestic advantage, 2 to same, and 1 to a foreign advantage. An average rating close to 3.0 indicates that a consensus of the respondents listed a domestic advantage; the closer that the average rating is to 1.0, the greater the consensus is toward a foreign advantage.

2/ Responses for an assessment of upholstered household furniture from Yugoslavia were statistically insignificant.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Regarding upholstered household furniture, imports of sofas, love seats, couches, and stationary chairs from Canada are considered to have approximately the same level of competitiveness as domestically produced items; U.S.-made sleep sofas, action chairs, sectional furniture, and miscellaneous upholstered household furniture were considered to have a competitive advantage. All U.S.-made upholstered products were considered to have the overall competitive advantage compared with the same items from Taiwan and Denmark.

Additional information regarding the competitive assessment by U.S. producers and importers for specific items such as dining tables, dining chairs, other dining furniture, chairs other than dining chairs, occasional tables, and bedroom furniture can be found in app. F.

U.S. intermediate purchasers (retailers) of household furniture also believed that Taiwan had an overall competitive advantage, and most of the retailers felt that furniture from Taiwan offered a lower delivered purchase price.

Response by the U.S. Industry

The U.S. industry is reacting to this competitive challenge in a variety of ways. Old plants are being reexamined for ways to expand production, some new equipment and production methods are being tested, additional funds are being spent on product development and market research, and furniture executives are looking to mergers and other investments to increase efficiency and eventual competitiveness. Although most marketing efforts of domestic producers are concentrated within the United States, it is reported that the U.S. industry is striving to increase its share of foreign markets. Industry representatives have asserted, that the strength of the dollar relative to other currencies has had an adverse impact on the industry's ability to export, but the industry is continuing its efforts in this area. In order to improve their competitive position, some U.S. producers have begun importing parts or even finished products.

62-651 O - 86 - 6

APPENDIX A

COPY OF LETTER TO CHAIRMAN ALFRED E. ECKES FROM CHAIRMAN SAM GIBBONS, SUBCOMMITTEE ON TRADE, HOUSE WAYS AND MEANS COMMITTEE, REQUESTING AN INVESTIGATION

SAM M. GIBBONS, FLA. CHAIRMAN
SUBCOMMITTEE ON TRADE

DAN ROSTENKOWSKI, ILL. CHAIRMAN
COMMITTEE ON WAYS AND MEANS

JOHN J. SALMON CHIEF COUNSEL
L. SINGLETON MINORITY CHIEF OF STAFF

DAVID S. NEMI, SUBCOMMITTEE STAFF DIRECTOR

64

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

SUBCOMMITTEE ON TRADE

September 26, 1983

The Honorable Alfred E. Eckes
Chairman
U.S. International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Mr. Chairman:

The Subcommittee on Trade of the Committee on Ways and Means requests that the U.S. International Trade Commission conduct an investigation under section 332 of the Tariff Act of 1930 on the conditions of competition in the U.S. market between domestically-produced wood and upholstered household furniture and imports of these products, especially from Taiwan and other Far Eastern countries.

In particular, we are interested in obtaining information on the relative prices, quality, and marketing techniques for the domestic and foreign products and any other factors which influence competitive strength in the U.S. market. A further area of interest is the nature and level of government involvement with the respective industries.

Each of the following should be specifically addressed in the study:

(1) A profile of the U.S. and major foreign industries including both a descriptive view of the industry and an analysis of the various strengths and weaknesses of each industry in terms of such factors as raw material, capital, labor availability and cost, and technology level.

(2) An analysis of the key economic factors in the U.S. market including U.S. consumption, production, trade, and other relavant factors.

(3) A discussion of U.S. and foreign government policies and regulations and their influence on the wood and upholstered household furniture industry.

The Honorable Alfred E. Eckes
September 26, 1983
Page Two

(4) An analysis of the conditions of competition in the U.S. market between domestic and foreign products including factors such as price, quality, marketing techniques, and after sales service.

It would be appreciated if the final report were transmitted to the Subcommittee on Trade not later than eight months after receipt of this request.

Sincerely,

Sam M. Gibbons
Chairman

S:G/RYc

APPENDIX B

NOTICE OF INSTITUTION OF INVESTIGATION NO. 332-170 AND PRELIMINARY NOTICE OF HEARING

Washington, D.C., and by publishing the notice in the Federal Register on June 2, 1983 (48 FR 24799). The hearing was held in Los Angeles, Calif., on September 12, 1983, and all persons who requested the opportunity were permitted to appear in person or by counsel.

The Commission transmitted its report on these investigations to the Secretary of Commerce on October 20, 1983. A public version of the Commission's report, Portland Hydraulic Cement from Australia and Japan (investigations Nos. 331–TA–108 and 109 (Final), USITC Publication 1440, 1983) contains the views of the Commission and information developed during the investigations.

Issued: October 20, 1983.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 83-28775 Filed 11-1-83; 8:45 am]

BILLING CODE 7020-02-M

[332-161]

Cancellation of Hearing on Crude Petroleum

AGENCY: International Trade Commission.

ACTION: Cancellation of Hearing.

EFFECTIVE DATE: October 25, 1983.

Background

The Commission, on it own motion, instituted, effective April 20, 1983, investigation No. 332–161, under the provisions of section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), for the purposes of gathering and presenting information on the future supply and prices of crude petroleum. This information will be used in assessing the possible effects of changing crude petroleum prices on such areas as United States trade, the petroleum industry, the petrochemical industry, and other energy-intensive industries.

Public Hearing

A public hearing was scheduled to be held in Houston, Texas, beginning Nov. 1, 1983, in connection with the investigation. Because of the limited number of witnesses requesting an opportunity to testify, the Commission, on its own motion, cancelled the hearing.

Written Submission

In lieu of or in addition to appearance at the public hearing, interested persons were invited to submit written statements concerning the investigation, no later than Oct. 24, 1983. Because of the cancellation of the hearing, written submissions concerning the investigation will be received until November 14, 1983.

Notice of the institution of the investigation containing the date of the scheduled hearing was published in the Federal Register of April 27, 1983 (48 FR 19087); the date and site of the hearing was published July 20, 1983 (48 FR 33063).

Issued: October 25, 1983.

By the Order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 83-28773 Filed 11-1-83; 8:45 am]

BILLING CODE 7020-02-M

[332-170]

A Study on a Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry

AGENCY: International Trade Commission.

ACTION: Following receipt, on October 3, 1983, of a letter from the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, the Commission, on its own motion, instituted investigation No. 332–170 under section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), for the purpose of gathering and presenting information on a competitive assessment of the U.S. wood and upholstered household furniture industry.

EFFECTIVE DATE: October 20, 1983.

FOR FURTHER INFORMATION CONTACT: Mr. Rhett Leverett, or Mr. Ruben Moller, General Manufactures Division, U.S. International Trade Commission, Washington, D.C. 20436, telephone 202–724–1725 or 202–724–1732, respectively.

Background

As requested by the Subcommittee, the Commission's study will specifically address:

(1) A profile of the U.S. and major foreign industries including both a descriptive view of the industry and an analysis of the various strengths and weaknesses of each industry in terms of such factors as raw material, capital, labor availability and cost, and technology level.

(2) An analysis of the key economic factors in the U.S. market including U.S. consumption, production, trade, and other relevant factors.

(3) A discussion of U.S. and foreign government policies and regulations and their influence on the wood and upholstered household furniture industry.

(4) An analysis of the conditions of competition in the U.S. market between domestic and foreign products including factors such as price, quality, marketing techniques, and after sales service.

Public Hearing

A public hearing in connection with the investigation will be held in High Point, North Carolina (exact location to be announced later), beginning at 10:00 a.m. e.s.t., on April 3, 1984, to be continued on April 4, 1984, if required. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 701 E Street NW., Washington, D.C., not later than noon, March 27, 1984.

Written Submissions

In lieu of or in addition to appearance at the public hearing, interested persons are invited to submit written statements concerning the investigation. Written statements should be received by March 23, 1984. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's Rules and Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's Office in Washington, D.C.

Issued: October 25, 1983.

By the Order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 83-28774 Filed 11-1-83; 8:45 am]

BILLING CODE 7020-02-M

INTERSTATE COMMERCE COMMISSION

[Ex Parte No. 446]

Alaska Railroad Certification

AGENCY: Interstate Commerce Commission.

ACTION: Certificate of Public Convenience and Necessity.

APPENDIX C

WITNESSES AT THE HEARING AND PERSONS SUBMITTING WRITTEN STATEMENTS

TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : A Study on a Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry

Inv. No. : 332-170

Date and time: April 3, 1984 - 9:00 a.m., e.s.t.

Sessions were held in connection with the investigation at the Radisson Hotel in High Point, North Carolina.

Congressional appearance:

Honorable James G. Martin, United States Congressman, State of North Carolina

Honorable Robin Britt, United States Congressman, State of North Carolina

WITNESS AND ORGANIZATION

American Furniture Manufacturers Association, Washington, D.C.

John Boardman, President of the AFMA and President of Sam Moore Furniture Industries, Inc.

Virginia House Furniture Corporation, Marion, Virginia

George W. Greer, III, President

Bassett Furniture Industries, Inc., Bassett, Virginia

Richard Rosenberg, Vice President, General Manager, Table Division

The American-International Display and Sales Center, High Point, North Carolina

Arthur S. Marburg, President

- more -

Cochrane Furniture Company, Inc., Lincolnton, North Carolina

Bruce R. Cochrane, Vice President-Sales and Marketing

Thomasville Furniture Industries, Inc., Thomasville, North Carolina

Frederick B. Starr, President

Ladd Furniture, Inc., High Point, North Carolina

Don A. Hunziker, Chairman

Bernhardt Industries, Lenoir, North Carolina

G. Alex Bernhardt, President

Keller Manufacturing Company, Inc., Corydon, Indiana

Robert W. Byrd, C.P.A., Vice President of Finance/Secretary and Treasurer

Trogdon Furniture Company, Toccoa, Georgia

George C. Trogdon, President

Ashley Furniture Corporation, Arcadia, Wisconsin

Fred Davis, Vice President

Universal Furniture Industries, Inc., Whittier, California

Ron Hahn, President

Written Submissions

1. Jesse Helms, U.S. Senate
   James T. Broyhill, U.S. Representative
   Jim Martin, U.S. Representative

2. John K. Boardman Jr., President
   Sam Moore Furniture Industries Inc., and
   President of the American Furniture Manufactures
   Association (AFMA)
   On Behalf of the AFMA

3. Richard Rosenberg, Vice President
   Bassett Furniture Industries
   On Behalf of the AFMA

4. Paul H. Broyhill, Chairman of the Board, Chief
   Executive Officer
   Broyhill Furniture Industries, Inc.

5. Arthur S. Marburg, President
   Aids Suppliers Mart

APPENDIX D

SUPPLEMENTARY NOTICE OF HEARING

Authority: U.S.C. 1337.

SUPPLEMENTARY INFORMATION: The presiding officer issued an initial determination in the above-captioned investigation on December 9, 1983, in which she determined that there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) in the unauthorized importation and sale of certain personal computers and components thereof. As a result of its review of that initial determination, the Commission on March 9, 1984, determined that a violation of section 337 exists in the unauthorized importation and sale of certain personal computers and components thereof which infringe U.S. Letters Patent 4,136,359, U.S. Letters Patent 4,276,972, Copyright Registration No. TX 873–203, Copyright Registration No. TX 809–449 or Copyright Registration No. TX 886–569 owned by complainant Apple Computer, Inc., the tendency of which unfair acts is to destroy or substantially injure an industry, efficiently and economically operated, in the United States.

Copies of the Commission's Action and Order, its Opinion, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 701 E Street NW., Washington, D.C. 20436, telephone 202–523–0161.

FOR FURTHER INFORMATION CONTACT: Wayne Herrington, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202–523–0480.

Issued: March 9, 1984.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 84-7550 Filed 3-20-84; 8:45 am]

BILLING CODE 7020-02-M

[332–170]

Competitive Assessment of the U.S. Wood and Upholstered Household Furniture Industry

AGENCY: United States International Trade Commission.

ACTION: This notice announces the location of and change in time for the hearing in connection with the Commission's investigation on the competitive assessment of the U.S. wood and upholstered household furniture industry.

EFFECTIVE DATE: March 14, 1984.

SUPPLEMENTARY INFORMATION: Notice is hereby given that the public hearing in connection with this investigation (see FR 48, 50631, November 2, 1983) will be held at the Radisson Hotel in High Point, North Carolina, beginning at 9:00 a.m. e.s.t. on April 3, 1984, to be continued on April 4, if required. All persons shall have the right to appear by counsel or in person, to present information and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 701 E Street NW, Washington, D.C., not later than noon, March 27, 1984.

FOR FURTHER INFORMATION CONTACT: Mr. Rhett Leverett, or Mr. Ruben Moller, General Manufactures Division, U.S. International Trade Commission, Washington, D.C., 20436, telephone 202–724–1725 or 202–724–1732, respectively.

Issued: March 16, 1984.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 84-7618 Filed 3-20-84; 8:45 am]

BILLING CODE 7020-02-M

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

Theater Advisory Panel Meeting

The meeting of the Theater Advisory Panel (Professional Companies Section) which is scheduled to meet on March 21–25, 1984, from 9.00 a.m.–6:00 p.m. with a scheduled open session on March 25 from 4:00 p.m.–6:00 p.m. is hereby amended to be a fully closed meeting to be held on March 21–25, 1984, from 9:00 a.m.–6:00 p.m. in Room 730 of the Nancy Hanks Center, 1100 Pennsylvania Avenue, NW, Washington, DC 20506.

This meeting is for the purpose of Panel review, discussion, evaluation, and recommendation on applications for financial assistance under the National Foundation on the Arts and the Humanities Act of 1965, as amended, including discussion of information given in confidence to the agency by grant applicants. In accordance with the determination of the Chairman published in the Federal Register of February 13, 1980, these sessions will be closed to the public pursuant to subsections (c) (4), (6) and 9(b) of section 552b of Title 5, United States Code.

Further information with reference to this meeting can be obtained from Mr. John H. Clark, Advisory Committee Management Officer, National Endowment for the Arts, Washington, DC 20506, or call (202) 682–5433.

Gary O. Larson,

Acting Director, Office of Council and Panel Operations, National Endowment for the Arts.

[FR Doc. 84-7519 Filed 3-20-84; 8:45 am]

BILLING CODE 7537-01-M

Agency Information Collection Activities Under OMB Review

AGENCY: National Endowment for the Humanities.

ACTION: Notice.

SUMMARY: The National Endowment for the Humanities (NEH) has sent to the Office of Management and Budget (OMB) the following proposal for the collection of information under the provisions of the Paperwork Reduction Act (44 U.S.C. Chapter 35).

DATE: Comments on this information collection must be submitted by April 20, 1984.

ADDRESSES: Send comments to Ms. Ingrid Foreman, Management Assistant, National Endowment for the Humanities, Administrative Services Office, Room 202, 1100 Pennsylvania Avenue, NW., Washington, D.C. 20506 (202–786–0233) or Mr. Joseph Lackey, Office of Management and Budget, New Executive Office Building, 726 Jackson Place, NW., Room 3208, Washington, D.C. 20503 (202–395–6880).

FOR FURTHER INFORMATION CONTACT: Ms. Ingrid Foreman, National Endowment for the Humanities, Administrative Services Office, Room 202, 1100 Pennsylvania Avenue, NW., Washington, D.C. 20506 (202–786–0233), from whom copies of the form and supporting documents are available.

SUPPLEMENTARY INFORMATION:

Category: Revision
Title: NEH Financial Status Report
Form Number: n/a
Frequency of Collection: Occasional (at end of grant)
Respondents: All NEH Institutional Grantees, at their option
Use: Provide information on project expenditures
Estimated Number of Respondents: 3,000 maximum
Estimated Hours for Respondents to Provide Information: 1

This entry is not subject to 44 U.S.C. 3504(h).

APPENDIX E

EXPLANATION OF THE RATES OF DUTY APPLICABLE TO WOOD AND UPHOLSTERED HOUSEHOLD HOUSEHOLD FURNITURE AND SELECTED PORTIONS OF THE TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1984)

Explanation of the rates of duty applicable to wood and upholstered household furniture

The rates of duty in column 1 are most-favored-nation (MFN) rates, and are applicable to imported products from all countries except those Communist countries and areas enumerated in general headnote 3(f) of the TSUSA. 1/ However, such rates do not apply to products of developing countries which are granted preferential tariff treatment under the Generalized System of Preferences (GSP) or under the "LDDC" column.

The rates of duty in the "LDDC" column are preferential rates (reflecting the full U.S. MTN concession rate for a particular item without staging of duty reductions) and are applicable to products of the least developed developing countries designated in general headnote 3(d) of the TSUSA which are not granted duty-free treatment under the GSP. If no rate of duty is provided in the "LDDC" column for a particular item, the column 1 rate applies.

The rates of duty in column 2 apply to imported products from those Communist countries and areas enumerated in general headnote 3(f) of the TSUSA.

The GSP is a program of nonreciprocal tariff preferences granted by the United States to developing countries to aid their economic development by encouraging greater diversification and expansion of their production and exports. The GSP, implemented by Executive Order No. 11888, of November 24, 1975, applies to merchandise imported on or after January 1, 1976, and is scheduled to remain in effect until January 4, 1985. It provides for duty-free treatment of eligible articles imported directly from designated beneficiary developing countries. Eligible articles are identified in the column marked "GSP" with an "A" or "A*." The designation "A" means that all beneficiary developing countries are eligible for the GSP, and "A*" indicates that certain developing countries, specified in general headnote 3(c) of the TSUSA, are not eligible.

1/ The only Communist countries currently eligible for MFN treatment are the People's Republic of China, Hungary, Romania, and Yugoslavia.

GSP	Item	Stat. Suf-fix	Articles	Units of Quantity	Rates of Duty 1	Rates of Duty LDDC	Rates of Duty 2
			Furniture designed for hospital, medical, surgical, veterinary, or dental use, dentists', barbers' and similar chairs with mechanical elevating, rotating, or reclining movements, and parts of the foregoing:				
A	727.02	00	Dentists', barbers' and similar chairs with mechanical elevating, rotating, or reclining movements, and parts thereof	X	4.5% ad val.	3.9% ad val.	35% ad val.
A	727.04	00	Other	X	6.5% ad val.	5.3% ad val.	40% ad val.
A*	727.06	00	Furniture designed for motor-vehicle use, and parts thereof	X	3.4% ad val.	3.1% ad val.	25% ad val.
	727.07	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6)	X	Free		
			Furniture, and parts thereof, not specially provided for:				
			Of unspun fibrous vegetable materials:				
A	727.11	00	Of rattan	X	12.6% ad val. ●	7.5% ad val.	60% ad val.
A	727.13	00	Of bun	X	12.8% ad val. ●	7.5% ad val.	60% ad val.
A	727.14	00	Other	X	12.8% ad val. ●	7.5% ad val.	60% ad val.
			Of wood:				
A	727.15	00	Bent-wood furniture, and parts thereof	X	8.8% ad val.	6.6% ad val.	42.5% ad val.
			Other:				
			Chairs:				
			Folding:				
A*	727.23	00	Director's chairs	No	6.5% ad val.	5.3% ad val.	40% ad val.
A	727.25	00	Other	No	6.5% ad val.	5.3% ad val.	40% ad val.
			Other:				
A	727.27	00	Of teak	No	5.3% ad val.	3.4% ad val.	40% ad val.
A*	727.29	00	Other	No	6.5% ad val.	5.3% ad val.	40% ad val.
A*	727.35		Furniture other than chairs		3.4% ad val.	2.5% ad val.	40% ad val.
		20	Convertible sofas, sofa beds, and similar dual-purpose furniture	No.			
		25	Desks and desk extensions	No.			
		30	Dining tables	No.			
		35	Other tables	No.			
			Other:				
			Bedroom furniture:				
		45	Beds and headboards	No.			
		50	Other	X ●			
			Other:				
		55	Wall systems, book cases, shelf units, credenzas, buffets, servers, china closets and other cabinets	No.			
		60	Shelving	No.			
		90	Other	X			
A	727.40		Parts of furniture		6.9% ad val.	5.3% ad val.	40% ad val.
		20	Bedsprings	X			
		40	Other	X			
A	727.45		Of textile materials, except cotton		10.9% ad val.	7% ad val.	80% ad val.
		20	Bedsprings	X			
		60	Other	X			

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

(2nd supp. 4/9/84)

GSP	Item	Stat. Suffix	Articles	Units of Quantity	Rates of Duty 1	LDDC	2
			Furniture, and parts thereof, not specially provided for (com.):				
			Of rubber or plastics:				
A	727.47	00	Of reinforced or laminated plastics	X	9.4% ad val.	6% ad val.	65% ad val.
	727.49	00	Furniture, if certified for use in civil aircraft (see headnote 3, part 6C, schedule 6)	X	Free		65% ad val.
			Other:				
	727.53	00	Waterbed mattresses and liners, and parts of the foregoing	X	2.6% ad val.		25% ad val.
A	727.59	00	Other	X	2.6% ad val.		25% ad val.
	727.60	00	Furniture, if certified for use in civil aircraft (see headnote 3, part 6C, schedule 6)	X	Free		25% ad val.
A	727.65	00	Of copper	X	4.9% ad val.	4.2% ad val.	45% ad val.
A*	727.70		Other		6.3% ad val.	4% ad val.	45% ad val.
		20	Convertible sofas, sofa beds, and similar dual-purpose furniture	No.			
		40	Bedsprings	No.			
		45	Furniture for outdoor use, of metal	No.			
		50	Desks and desk extensions, of metal	No.			
		55	Other tables, of metal	No.			
		65	Chairs, of metal	No.			
			Other:				
			Wall systems, book cases, shelf units, and other cabinets, of metal:				
		70	File cabinets	No.			
		75	Other	X			
		80	Other	X			
	727.71	00	Furniture, except of leather, if certified for use in civil aircraft (see headnote 3, part 6C, schedule 6)	X	Free		45% ad val.

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

APPENDIX F

ASSESSMENT BY U.S. PRODUCERS AND IMPORTERS OF THE COMPETITIVE POSITION OF SELECTED U.S.-MADE WOOD HOUSEHOLD FURNITURE VERSUS THAT OF FOREIGN-MADE PRODUCTS

Table F-1.--Dining tables: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made dining tables 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made dining tables versus products made in--											
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	8	11	1	4	4	5	6	-	1	6	5	2
Lower purchase price (delivered)	2	16	-	3	4	2	4	-	2	5	7	1
Ability to supply product at various markets price levels	7	4	1	5	2	2	5	-	1	7	2	2
Exchange-rate advantage	1	9	1	1	7	2	3	4	1	2	5	4
Quality	11	2	7	1	4	3	2	1	4	6	-	6
Terms of sale	4	1	9	4	1	4	4	-	3	6	2	3
Overall availability	12	2	4	8	-	1	6	-	1	8	1	4
Shorter delivery time	15	-	4	9	-	-	5	-	1	10	1	3
Warranties and service	12	-	6	4	-	5	4	-	3	8	-	5
Historical supplier relationship	15	1	3	6	2	1	6	-	1	7	4	3

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

81

Table F-2.--Dining chairs: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made dining chairs 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made dining chairs versus products made in--											
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	4	16	-	4	4	1	6	-	1	4	11	-
Lower purchase price (delivered)	2	13	1	3	4	2	4	1	2	-	14	-
Ability to supply product at various markets price levels	5	7	2	5	2	2	5	1	1	2	6	3
Exchange-rate advantage	1	10	1	1	7	2	3	4	1	1	7	3
Quality	9	2	8	1	4	4	2	1	4	4	2	6
Terms of sale	4	2	9	4	1	4	4	-	3	4	2	5
Overall availability	12	1	4	8	-	1	6	-	1	7	2	5
Shorter delivery time	15	-	4	9	-	-	5	-	1	9	3	3
Warranties and service	12	-	6	4	-	5	4	-	3	6	-	8
Historical supplier relationship	15	-	3	6	2	1	6	-	1	7	3	3

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table F-3.--Other dining furniture: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made other dining furniture 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made other dining furniture versus products made in--											
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	9	5	1	5	4	1	5	-	1	10	3	1
Lower purchase price (delivered)	7	8	3	3	5	2	4	1	2	7	4	2
Ability to supply product at various markets price levels	6	2	4	5	3	2	5	1	1	7	3	2
Exchange-rate advantage	1	9	1	1	8	2	2	4	1	2	6	4
Quality	9	-	7	2	4	4	2	1	3	7	1	5
Terms of sale	4	1	9	4	2	4	3	-	3	6	2	4
Overall availability	10	3	3	9	-	1	5	-	1	9	1	4
Shorter delivery time	13	1	3	10	-	-	5	-	1	10	1	2
Warranties and service	10	-	6	5	-	5	3	-	3	9	-	5
Historical supplier relationship	13	1	3	7	2	1	5	-	1	9	4	1

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table F-4.--Other chairs: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made other chairs 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made other chairs versus products made in--														
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	5	13	2	3	4	1	5	-	-	2	9	-
Lower purchase price (delivered)	4	13	3	2	3	3	3	1	1	1	9	-
Ability to supply product at various markets price levels	5	7	3	4	1	3	4	1	-	2	4	2
Exchange-rate advantage	1	8	3	1	6	2	2	4	1	2	6	2
Quality	7	3	9	1	3	4	2	-	3	2	3	4
Terms of sale	4	2	10	4	1	3	3	-	2	4	2	8
Overall availability	10	5	2	8	-	-	4	-	1	4	2	4
Shorter delivery time	15	1	3	8	-	-	4	-	1	6	2	3
Warranties and service	10	-	8	3	-	5	2	-	3	5	-	5
Historical supplier relationship	13	-	5	5	2	1	4	-	1	4	4	3

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table F-5.--Occasional tables: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made occasional tables 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made occasional tables versus products made in--											
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	2	18	2	6	5	1	6	1	1	7	5	2
Lower purchase price (delivered)	1	21	1	6	4	2	5	3	1	4	8	1
Ability to supply product at various markets price levels	7	6	4	5	3	3	5	1	2	6	1	4
Exchange-rate advantage	1	11	4	2	9	1	3	6	1	2	8	2
Quality	13	2	9	1	4	7	4	-	5	5	2	5
Terms of sale	8	-	12	6	1	5	4	-	5	6	1	4
Overall availability	14	3	5	10	-	1	5	-	2	8	1	3
Shorter delivery time	18	-	5	10	-	-	6	-	3	9	1	3
Warranties and service	14	-	7	5	-	5	5	-	4	9	1	3
Historical supplier relationship	17	1	4	6	2	1	7	-	2	10	2	2

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

85

Table F-6.--Bedroom furniture: Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made bedroom furniture 1/ versus foreign-made products during 1979-83

Factor of competition	Frequency of responses by U.S. producers and importers assessing the competitive advantages of U.S.-made bedroom furniture versus products made in--														
	Taiwan			Denmark			Canada			Yugoslavia		
	D	F	S	D	F	S	D	F	S	D	F	S
Overall competitive advantage	11	4	1	4	5	2	4	2	2	9	2	-
Lower purchase price (delivered)	7	6	1	3	6	2	3	3	2	5	5	-
Ability to supply product at various markets price levels	8	2	1	3	2	5	3	1	3	7	1	1
Exchange-rate advantage	4	9	1	1	10	1	2	7	-	2	7	1
Quality	10	-	5	1	3	7	3	1	4	7	-	3
Terms of sale	4	-	10	5	1	5	2	-	6	8	1	2
Overall availability	11	1	2	8	-	2	5	-	4	10	1	1
Shorter delivery time	14	-	2	8	-	2	4	-	4	11	1	1
Warranties and service	11	-	4	6	1	3	4	-	4	9	-	2
Historical supplier relationship	15	-	1	7	2	2	5	-	3	10	2	-

1/ The questionnaire respondents listed the competitive advantage of each factor as being "domestic (D)", "foreign (F)," or "same (S)."

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Senator ABDNOR. Thank you, Mr. Nichols.

I am going to ask Mr. Cobb at my right here, who is one of our chief economists on our committee in this area, who I think probably has a lot better background than I do, to take over. I think he has some questions he would like to ask you.

Isn't that right?

Mr. COBB. That is correct.

Senator ABDNOR. So if you don't mind.

Mr. NICHOLS. Yes, sir, fine.

Senator ABDNOR. If I slip out on you, because I have about eight people I am supposed to be with like Senator Symms, but this is all very important and we need the information, and I think he has a better feel for what he wants here than I have.

So, Mr. Cobb.

Mr. COBB. Thank you, Senator.

Mr. Nichols, let me ask you a few questions relating to the relative positions of the United States and the Canadian industries.

First, I understand that there is already an agreement that furniture tariffs are scheduled to be reduced, negotiated several years ago in our schedule of reductions. Are you aware of those and can you explain what those are?

Mr. NICHOLS. Yes, sir, I am, and I definitely am aware of that. However, the U.S. tariffs would also be reduced. So the disparity would not change, unfortunately. So we would maintain the status quo, in my opinion.

Mr. COBB. I understand. What is the quality of Canadian furniture manufacturing? Does the United States, since our industry is larger and more diversified, have any quality advantages?

Mr. NICHOLS. Sir, in my view we do not for a number of reasons. They are advanced technologically, certainly in their larger facilities just as their American counterparts, and also when you view the American furniture industry, there are a number of products that require a high-skill level and a certain art level. So strictly the advent of new technology is not always applicable.

But to answer your question directly, I would put them on very much the same level, certainly a level with American counterparts.

Mr. COBB. Now you have testified about the dramatic increase in the Canadians shipping furniture into the United States market. Are you directly aware of American manufacturers that have lost sales where they have been told, I am sorry, we are reducing our purchases from you because we can buy from a Canadian supplier?

Mr. NICHOLS. I certainly can't at this point cite specific instances. However, they are extremely competitive, their wood, their quality, their style and their design is very much suitable to our market, and we compete with the Canadians just as we would with any other American furniture manufacturer. So, absolutely, they are very competitive in our marketplace.

Mr. COBB. Do you think there will be an increase of United States furniture sales into Canada? By that I mean if we were able to reduce the tariffs and get them down to at least a level of parity, if not eliminate them, that there would be a significant increase in United States direct sales into Canada?

Mr. NICHOLS. I would say unquestionably, yes, both from my own company's standpoint and also as would a number of other indus-

try members in our association. There is a great opportunity for us to ship our products to Canada and we really feel with that trade barrier it just precludes that being a more viable market for us at this time.

Mr. COBB. In terms of the regional differences in both the United States and Canada, is there more cross-border trade in furniture in the New England area than, for example, in the United States north, or is it because of the transportation ease basically of nationwide trade all around? Do you see very much in western Canada?

Mr. NICHOLS. We do not. My firm does not, but, yes, there is competition certainly in the New England area, but I would suspect New York State and all the bordering States feel the impact. I would say that it is not just a question of those States that have the common border. The impact has certainly been shown throughout our country, including shipments in the southern part of the United States.

Mr. COBB. I have noticed that so much of the furniture here in the Washington, DC, area seems to come from North Carolina.

Mr. NICHOLS. Well, there is certainly a lot of furniture built in North Carolina.

Mr. COBB. There is some evidence that the Canadian furniture industry is, at least compared to the United States, in its infancy, smaller, and the Canadians say that it actually needs tariff protection. Would you comment on that theory?

Mr. NICHOLS. Yes. I don't see them as a fledgling industry at all from personal observation and also the product that the Canadians are able to produce, both design, style, and quality is very much competitive with our product. Certainly there are smaller companies in Canada that may have less advantage, just as small companies in the United States do in terms of technological ability and in terms of computerization and sophistication that way. But they are certainly just as competitive, and I would not view them as a fledgling industry. They are fully industrialized in terms of furniture manufacturing.

Mr. COBB. In your opinion, which nation's furniture industry would stand to benefit the most from a free trade agreement?

Mr. NICHOLS. Well, I guess I at this point couldn't give you an exact statement on who would benefit the most. What I do know is that we have been at a severe disadvantage given the differential in the tariff barrier, and I would guess also, and I in fact believe also that if that barrier were removed, then there would certainly be some benefits afforded to the U.S. manufacturers.

Mr. COBB. If the AFMA supports the efforts of the U.S. Government to negotiate these tariff levels with the Canadians, why are you supporting steps outside of the negotiations? There is some concern that has been expressed to this committee by the Department of Commerce, for example, that our activities, that the activities in Congress actually could make negotiations more difficult. Aren't you concerned that these efforts in Congress might contradict the free trade discussions?

Mr. NICHOLS. Well, certainly our primary goal is free trade. There has been support of the Fair Furniture Trade Act, which in effect states that, and our association is very much in support of it.

And in the event that would not occur, then the next alternative is to equalize the tariffs and seek reciprocity legislation.

So that I would say our ultimate aim is a free trade situation and would not see it as impeding trade negotiations.

Mr. COBB. I want to thank you very much. That ends my questions. I want to apologize on behalf of Senator Symms, Senator Abdnor, and Senator D'Amato because of the duties of this very busy session. You may know that the Gramm-Rudman bill puts a much earlier deadline on much of the work of Congress this year than in past years.

Thank you very much for coming.

Mr. NICHOLS. Thank you.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

IDAHO WOMEN IN TIMBER

3653 Kasper Road
Moscow, ID 83843

March 9, 1986

STATEMENT ON

CANADIAN IMPORTS

BY

IDAHO WOMEN IN TIMBER

BACKGROUND ON IDAHO WOMEN IN TIMBER (IWIT)

IDAHO WOMEN IN TIMBER was organized eight years ago to present a BALANCE - so the public may be aware that we can have both a QUALITY ENVIRONMENT and a HEALTHY TIMBER PRODUCTS INDUSTRY AND ECONOMY. Our motto is "A QUALITY ENVIRONMENT AND A HEALTHY TIMBER INDUSTRY". We are women and men who are directly involved in the timber industry in Idaho - loggers, mill owners, union and non-union workers, office personel, executives, truck drivers, equipment dealers, industrial foresters, timberland owners, tree farmers, home makers and more. Currently we are comprised of eight chapters through out the state of Idaho. IWIT has three main objectives: Increase and improve COMMUNICATION with the general public, as it relates to the forest resource. Encourage greater awareness and understanding of Idaho's forest resources through EDUCATION. Encourage and promote solid forest related LEGISLATION.

CANADIAN IMPORT PROBLEM

Mills in the Northwest are closing. Lumber and logging jobs are being lost, community and family stability are being threatened, school districts and highway districts are losing revenue. Timber dollars and timber tax dollars are being pulled out of the system and lost thru unemployment.

In 1975, 18.7% of lumber consumed in the U.S. came from Canada. By 1985, Canadian lumber had seized 32.6% of the U.S. market. The market share gained by Canada equals the market share lost by lumber mills in the western U.S. Most of the market was gained by Canada before 1978 due to our housing boom; when that boom ended they hung on to the market due to at least two factors. 1.) Price advantage gained by giveaway government prices for Canadian timber, (our U.S. companies pay $100.00 mbf and the Canadians pay $10.00 mbf). 2.) Price advantage caused by the strong dollar.

We have been concerned if the U.S. tried to make free trade between the two countries more equitable we would cause repercusions in other trade areas. After having done studies we have found Canada has not been afraid to have limits on free trade. They have import quotas on all sorts of products including, U.S. footware, chickens, turkeys, eggs, dairy products etc. Tree seedlings can not be shipped across the border, even though Canada is five years behind in their reforestation. In the fall and winter of 1982-83 Canada placed a surtax on imported yellow onions that cost American producers $412,000. During 1979 when Russia invaded Afganistan, President Carter to protest the invasion put an embargo on U.S. wheat shipped to Russia. Canada stepped in and picked up those wheat markets.

British Columbia alone has 800 timber jobs involved and CFI represents an investment of 100 million dollars that has yet to pay a return. We absorb 75% of all Canadian exports totaling 66 billion dollars. We are important to them. Our IWIT statement that we took to Washington, D.C. in May of 1985 stated we supported negotiations between U.S. and Canada to seek a voluntary solution. This has not happened and we are still hurting.

IDAHO WOMEN IN TIMBER - CANADIAN IMPORT STATEMENT

Idaho Women In Timber recognized that mills in the Northwest are closing, lumber and logging jobs are being lost, communities and families are losing stability. Schools and highway districts are losing revenue. We recognize that Canadian softwood lumber imports are having a major impact on the Forest Products Industry of the Northwest and other regions of the U.S. We need a solution now. We feel at this time our Idaho Delegations Bills and other similar bills will bring the Forest Products Industry relief and we support the following bills.

1.) NATURAL RESOURCES SUBSIDIES - S. 1292 Baucus/Long - H.R. 2345 Moore - H.R. 2451 Gibbons (Craig co-sponsor) To amend title VII of the Tariff Act of 1930 in order to apply countervailing duties with respect to resource input subsidies. A resource input subsidy exists if: A.) a product is provided or sold by a government for input use at a domestic price that is lower than fair market value and not freely available to U.S. producers for purchase of the input product for export to U.S.

B.) product would if sold at fair market value constitute a significant portion of the total cost of manufacture.

2.) SOFTWOOD LUMBER TARIFF - S. 1977 Symms. This bill would place a tariff on all Canadian softwood lumber. The bill would begin in 1986 with a 30% tariff, 25% tariff in 1987, 20% tariff in 1988 and end in 1989. The tariff would expire earlier if the import level decreases to 15% of the U.S. market.

3.) SOFTWOOD LUMBER STABILIZATION ACT OF 1985 - 1224 McClure. To limit the importation of softwood lumber into the United States. Limited to historical percentage of imports. The President is authorized to enter into negotiations and limitations.

4.) WOOD PRODUCTS TRADE ACT OF 1985 - S. 982 Baucus - H.R. 1648 Bonker (Craig co-sponsor). To amend the Trade Act of 1974 to promote expansion of international trade in wood products. President may enter into a trade agreement which provides for voluntary restraints on exports of wood products. Includes an amendment to definition of subsidy adding stumpage subsidy. Amendment to tariff schedules on certain types of plywood.

5.) CANADIAN SOFTWOOD IMPORT CONTROL ACT - H.R. 1088 Weaver/Craig. To impose quantitative limitations on the importation of Canadian softwood for a five year period, to require an investigation, report and recommendations on the management of the national forest system.

Additionally, IWIT strongly recommends that something be done to bring relief to our communities and families.

Sincerely,

Amber Thiemens, President
IDAHO WOMEN IN TIMBER
3653 Kasper Road
Moscow, ID 83843